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# THE SWEDISH EXPERIENCE: ASSURING INDUSTRIAL COMPETITIVENESS IN A HIGH-WAGE, FULL-EMPLOYMENT ECONOMY

## SYMPOSIUM

BEFORE THE

## JOINT ECONOMIC COMMITTEE
## CONGRESS OF THE UNITED STATES

ONE HUNDREDTH CONGRESS

SECOND SESSION

---

FEBRUARY 25, 1988

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Printed for the use of the Joint Economic Committee

J841-1

U.S. GOVERNMENT PRINTING OFFICE

88-389 WASHINGTON : 1988

For sale by the Superintendent of Documents, Congressional Sales Office
U.S. Government Printing Office, Washington, DC 20402

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## LETTER OF TRANSMITTAL

AUGUST 12, 1988.

*To the Members of the Joint Economic Committee:*

I am pleased to transmit to you this report on the proceedings of the symposium entitled "The Swedish Experience: Assuring Industrial Competitiveness in a High-Wage, Full-Employment Economy." The symposium was arranged by the Congressional Research Service of the Library of Congress at the request of the Joint Economic Committee and was scheduled to coincide with the "Year of New Sweden," making the 350th anniversary of the founding of the New Sweden colony in the New World in 1638.

Since 1982 Sweden has succeeded in transforming trade and current account deficits into surpluses and reducing inflation while maintaining a high-wage, full-employment economy. The symposium provided an opportunity to review, from varying perspectives, the factors which have contributed to Sweden's economic resurgence. Symposium participants also considered the extent to which Swedish policies might be relevant to the economic challenges facing the United States.

In their size and diversity, the United States and Swedish economies differ very significantly. Nonetheless, Sweden's success in assuring both competitiveness abroad and a rising standard of living at home suggests that the Swedish experience merits careful examination.

I hope that the materials included in this volume will prove helpful to you.

Sincerely,

PAUL S. SARBANES,
*Chairman.*

# CONTENTS


Page

Letter of transmittal ..... III
Joint resolution to designate 1988 as the "Year of New Sweden" and to recognize the New Sweden 1988 American Committee ..... VII
Presidential proclamation of Year of New Sweden, 1988 ..... IX

PANEL TOPICS, PRINCIPAL SPEAKERS, AND DISCUSSANTS

THURSDAY, FEBRUARY 25, 1988

Opening statements:
Senator Paul S. Sarbanes, Chairman, Joint Economic Committee ..... 1
Joseph E. Ross, Director, Congressional Research Service, Library of Congress ..... 3

*The Restructuring of Swedish Industry and the Restoration of Macroeconomic Balances*

Moderator: John P. Hardt, Associate Director, Congressional Research Service, Library of Congress ..... 3
Speaker: Peter Wallenberg, President, Federation of Swedish Industries ..... 3
Discussants:
Jerry Jasinowski, Executive Vice President and Chief Economist, National Association of Manufacturers ..... 16
Olivier Blanchard, Professor, Department of Economics, Massachusetts Institute of Technology ..... 28

*Industrial Restructuring and Labor Market Policy*

Moderator: William A. Cox, Senior Specialist in Economic Policy, Congressional Research Service, Library of Congress ..... 32
Speaker: Allan Larsson, Director General, Swedish National Labor Market Board ..... 34
Discussants:
Rudy Oswald, Director, Department of Economic Research, AFL–CIO ..... 51
Susan Houseman, Professor, School of Public Affairs, University of Maryland ..... 60

*People at Work—Quality, Productivity, and Motivation*

Moderator: Nonna Noto, Economics Division, Congressional Research Service, Library of Congress ..... 63
Speaker: Pehr Gyllenhammar, Chief Executive Officer, AB Volvo ..... 63
Discussants:
Robert Walters, Manager of Organization Development, Harley-Davidson, Inc ..... 74
Ray Marshall, Professor, LBJ School of Public Affairs, University of Texas at Austin ..... 78
Summary ..... 89
Bibliography ..... 95

Public Law 99-304
99th Congress

## Joint Resolution

To designate 1988 as the "Year of New Sweden" and to recognize the New Sweden 1988 American Committee.

May 15, 1986
[S.J. Res. 289]

Whereas on or about March 29, 1638, the Kalmar Nyckel and Fogel Grip, ships sent by Sweden to establish a colony in the Delaware River Valley, anchored off the "Rocks" on the Christina River in what is now the State of Delaware;

Whereas the colony which they established—New Sweden—was the first permanent settlement of Swedes in North America;

Whereas Swedish settlers were instrumental in the founding of our Nation; John Morton of Pennsylvania, a signer of the Declaration of Independence, was of Swedish descent, as was John Hanson of Maryland, who presided over the Continental Congress from 1781 through 1782;

Whereas Swedish immigration to the United States consisted of one million two hundred thousand people between the late 1840's and the late 1920's, who came here to seek a better life; these settlers dispersed to all regions of the United States;

Whereas the contributions of Swedish-Americans to our way of life and our culture have been varied and many; their pioneering nature made them leaders in many fields including politics, business, education and the arts;

Whereas it is estimated that today there are four million two hundred thousand United States citizens of Swedish descent living in every State and involved in every walk of life;

Whereas 1988 marks the three hundred and fiftieth anniversary of the arrival of the Kalmar Nyckel and Fogel Grip in North America;

Whereas a United States committee—New Sweden 1988—is planning a series of events and celebrations throughout our Nation to commemorate this anniversary; and

Whereas at the present time, the following American cities and States have New Sweden 1988 committees and chairs planning local activities: Washington, District of Columbia, Wilmington, Philadelphia, New York City, Detroit, Chicago, Minneapolis, Houston, Dallas, Los Angeles, San Francisco, Seattle, St. Louis, New Jersey, Nebraska, North Dakota, South Dakota, and western Illinois: Now, therefore, be it

*Resolved by the Senate and House of Representatives of the United States of America in Congress assembled,* That 1988 is hereby designated as the "Year of New Sweden" in the United States. The President is authorized and requested to issue a proclamation designating 1988 as the "Year of New Sweden" and to invite and encourage the Governors of the several States, the chief officials of local governments and the people of the United States to participate in the events and activities that the New Sweden 1988 American Committee has planned for 1987 and 1988.

Approved May 15, 1986.

# Year of New Sweden, 1988

*By the President of the United States of America*

**A Proclamation**

The year 1988 is the 350th anniversary of the arrival, in what is now Delaware, of two ships, the *Kalmar Nyckel* and the *Fogel Grip*, which were sent by the Kingdom of Sweden to establish New Sweden, the first permanent settlement of Swedes in North America. Celebration of this occasion gives every American the opportunity to pay tribute to those courageous colonists and to all who have followed them from Sweden to America.

Swedish Americans have won a place in the history and heritage of the United States, and they continue their tradition of notable achievements today. Two Swedish Americans associated prominently with the American Revolution were John Morton of Pennsylvania, a signer of the Declaration of Independence, and John Hanson of Maryland, who presided over the Continental Congress in 1781 and 1782. More than a million Swedes came to the United States between 1845 and 1910, and more than four million Americans today have Swedish ancestry.

We can all be truly proud of the contributions of Swedish Americans to our beloved land, of the close ties between the United States and Sweden over the years, and of the devotion to democracy that our peoples share.

The Congress, by Public Law 99-304, has designated 1988 as the "Year of New Sweden" and has authorized and requested the President to issue a proclamation in observance of this year.

NOW, THEREFORE, I, RONALD REAGAN, President of the United States of America, do hereby proclaim 1988 as the Year of New Sweden. I call upon the Governors of the several States, local officials, and the people of the United States to observe this year with appropriate ceremonies and activities.

IN WITNESS WHEREOF, I have hereunto set my hand this twenty-third day of December, in the year of our Lord nineteen hundred and eighty-seven, and of the Independence of the United States of America the two hundred and twelfth.

Ronald Reagan

# THE SWEDISH EXPERIENCE: ASSURING INDUSTRIAL COMPETITIVENESS IN A HIGH-WAGE, FULL-EMPLOYMENT ECONOMY

THURSDAY, FEBRUARY 25, 1988

CONGRESS OF THE UNITED STATES,
JOINT ECONOMIC COMMITTEE,
*Washington, DC.*

The symposium was convened, pursuant to notice, at 9:35 a.m., in the Hart Senate Office Building, room SH-216, Hon. Paul S. Sarbanes (chairman of the committee) presiding.

Present: Senator Sarbanes and Representative Scheuer.

## OPENING STATEMENT OF SENATOR SARBANES, CHAIRMAN

Senator SARBANES. If I could call the symposium to order.

It's a great pleasure to welcome everyone to what promises to be a most interesting and rewarding morning of commentary and discussion: the symposium on the Swedish economy which the Congressional Research Service of the Library of Congress has arranged at the request of the Joint Economic Committee. I know that the distinguished Director of the Congressional Research Service, Joseph Ross, who's here to my right, will also want to offer opening remarks before the symposium actually commences, and so I will keep mine as brief as possible.

I do want to digress for just a moment to recognize in the audience a very distinguished and able former chairman of the Joint Economic Committee, really one of the outstanding Members ever to serve in the Congress of the United States—Hon. Richard Bolling. Dick, we're very pleased to have you here this morning.

This symposium is being held against the background of a very important anniversary celebration. By joint resolution of the Congress and by Presidential proclamation, 1988 is the "Year of New Sweden," for it marks the 350th anniversary of the founding of the New Sweden colony in the New World.

America owes its strength and vitality first of all to its people, and in this connection the contribution of Swedish Americans cannot be overstated. In the latter part of the 19th century and the first decades of the 20th, it's estimated that roughly one-quarter of the population of Sweden emigrated to the United States. Swedish-American communities prospered in virtually every area of the country, from northern New England through the Middle West to the Pacific Northwest; and at the turn of the century, the only city in the world with a Swedish population larger than Stockholm's was Chicago.

Chicago, incidentally, can make that claim with respect to a great number of countries as successive waves of migration moved through. [Laughter.]

The original New Sweden colony was established on the Delaware River, where Wilmington is today. It made a major contribution to my own State of Maryland in the person of John Hanson, whose family came to the Delaware colony in 1643, but had the wisdom to move on to Maryland in 1656. [Laughter.]

John Hanson was a driving force in the colonial General Assembly, an active patriot during the Revolution and in the immediate post-Revolutionary period. He was the first President of the Continental Congress and in a sense, therefore, the first President of the United States. He is one of the two Marylanders whose statues are to be found in the U.S. Capitol.

Our purpose this morning is not to remember the distant past, however, but to focus on the recent past and the present, and to pose important questions about the future. The recent experience of the Swedish industrial section invites, indeed demands, careful examination by those who see in the challenge that Sweden has faced—assuring international competitiveness in the context of a high-wage, full-employment economy—a challenge that faces all industrial nations in the rapidly changing and increasingly interdependent world economy.

We are very fortunate this morning to have a report from three persons who have been deeply engaged in meeting the Swedish challenge. Mr. Peter Wallenberg is President, Federation of Swedish Industries; Mr. Allan Larsson is the Director General of the Swedish National Labor Market Board; and Mr. Pehr Gyllenhammar is Chief Executive Officer of AB Volvo. Each will bring his own perspective to this morning's panels. In addition, we will hear from a distinguished group of U.S. commentators drawn from the academic, business, and labor worlds:

Jerry Jasinowski, the Executive Vice President and Chief Economist of the National Association of Manufacturers; Olivier Blanchard, Professor in the Department of Economics at MIT; Rudy Oswald, Director of the Department of Economic Research of the AFL–CIO; Susan Houseman, Professor in the School of Public Affairs at the University of Maryland; Robert Walters, Corporate Manager, Organization Development of Harley-Davidson, Inc.; and Ray Marshall, the distinguished former Secretary of Labor, and Professor at the LBJ School of Public Affairs at the University of Texas.

I want to thank our participants in advance for their generous contributions of time, energy, experience, and analysis to this morning's endeavor. I also want to thank especially Ambassador Wachtmeister, Sweden's Ambassador to the United States and dean of the Washington diplomatic corps, and the staff of the Swedish Embassy.

Mr. Ambassador, we're pleased to see you here. We're very grateful for your contributions to this symposium.

Finally, I want to thank Joe Ross, the Director of the Congressional Research Service, for making available to the Joint Economic Committee the formidable resources of the CRS in connection with this symposium. There is a long tradition of cordial and fruit-

ful cooperative efforts between the Joint Economic Committee and the Congressional Research Service, and this symposium carries on that tradition.

We are grateful to our CRS panel moderators, William Cox, Nonna Noto and especially John Hardt, Associate Director for Research Coordination, who has worked closely with Daniel Bond, Lee Price, and Debra Silimeo of the JEC staff to make this symposium possible.

With that, I again welcome everyone here this morning and turn the microphone over to Joe Ross, the Director of the Congressional Research Service.

## OPENING STATEMENT OF JOSEPH E. ROSS, DIRECTOR, CONGRESSIONAL RESEARCH SERVICE, LIBRARY OF CONGRESS

Mr. Ross. Thank you, Mr. Chairman. We at CRS are very pleased to arrange a meeting on the recent experience of the Swedish economy, as it may provide insight for the United States in meeting the challenges of international economic competitiveness, domestic growth and prosperity.

This is one of a series of CRS seminars and symposia designed to provide Members and staff of the Congress with objective and nonpartisan assessments of important issues before the Congress.

John P. Hardt, our Associate Director for Research Coordination, and also, I should add, a distinguished senior specialist in CRS in the area of Soviet economics, will moderate and introduce the participants of the first panel.

## THE RESTRUCTURING OF SWEDISH INDUSTRY AND THE RESTORATION OF MACROECONOMIC BALANCES—JOHN P. HARDT, MODERATOR

Mr. HARDT. Thank you. The first speaker will be Mr. Wallenberg; Mr. Jasinowski and Mr. Blanchard will be discussants of the panel from the perspective of the United States and the international economy.

During the recent past, external disturbance shocks have had an adverse effect on the international economy, oil prices being one of many of the external disturbances. And the reaction of many countries, including our own, has been, at best, not ideal in terms of the development of twin deficits and problems in our domestic economy.

Faced with these major external disturbances, this highly trade-dependent, small developed economy, Sweden has adjusted and restructured its industry in order to regain a balance in its international accounts and resume domestic growth.

This element of readjustment and reorientation is the general perspective which Mr. Wallenberg will give us some insights into. Mr. Wallenberg, please proceed.

## STATEMENT OF PETER WALLENBERG

Mr. WALLENBERG. Thank you, Mr. Chairman, honorable Members of Congress of the United States, ladies and gentlemen, as Senator Sarbanes mentioned here a moment ago, the reason why I, together with my friends, Mr. Allan Larsson and Mr. Pehr Gyllen-

hammar, are appearing here today before the Joint Economic Committee is the celebration of the year of New Sweden 1988.

We are indeed very honored to have been invited here to this presentation and we're exceedingly grateful for the opportunity which we understand is somewhat unique in the committee's annals to give what we hope will be a reasonably balanced picture of some aspects of Sweden through our presentations this morning.

Now, picture yourselves, the State of California, with 8½ million people in it. That, I think, is the best way that I can describe at least two of Sweden's dimensions.

As Californians will know, this makes for a very sizable country. And as we Swedes will know, that leaves a lot of room for each individual to roam around in.

Of course, we don't have any ripe oranges, except those that we import. [Laughter.]

Many of them from California; and we don't have any subsistence of land on account of depleting oil wells. And, of course, we have no Hollywood. [Laughter.]

Judged by sheer numbers, Sweden must, therefore, surely be regarded as a nation of very limited dimensions. This no doubt has something to do with the fact that we also were relatively latecomers as an industrial nation—much later than Great Britain or, for that matter, other major industrial nations, too.

At the turn of this century, we were still a comparatively poor country, having recently lost almost a quarter of our population through the flow of immigration to these United States.

Most Swedes in Sweden at that time were still eking out a living in what amounted to a very poor agrarian economy. To put it very simply, the truth is that we never had a sufficient home market to develop strong industries within our own borders. Nor, for that matter, did we in those days have much in the way of available capital.

In order to have a viable industry at all, with sufficient strength to grow by its own means, many Swedish entrepreneurs, therefore, had to think about exports and foreign markets right from the outset. And we needed foreign capital.

Indeed, it was foreign capital that built our first railroads and also which developed some of our natural resources.

But back in the 17th century already, we had some export experience in those days with something that was world renowned under the name of Stockholm Tar. It was a wood tar product of high quality that was used on sailing ships, civilian as much as naval ships. There was copper that we exported from one mine which, for a whole century, between the 17th and 18th centuries, produced no less than 65 percent of the world's output of copper in those days.

So when industrialization started in Sweden in the 1850's, it was not totally unnatural for those new enterprises to establish themselves abroad. Many went east to close-by Czarist Russia, where Swedish industry, for instance, Nobel's oil and explosives conglomerate, now most well known through the annual prizes that they award, got a strong foothold, all of which was later, of course, totally lost in the revolution of 1917.

This, incidentally, was quite a setback for Sweden, leaving our industry very exposed for a period in the early 1920's.

Other enterprises went south and west, like to the United States. Dolaval Separator is a case in point, the milk separator people, they established themselves here as a manufacturer already before the turn of the century. And the ball bearing people in SKF followed on and started production on American soil right after the turn of the century.

Many of our early industries started with what was a practical solution to a technical or mechanical problem, something which seemed to suit our pragmatic and independent mentality developed in a rather tough agricultural environment and which had been the origin of so many technical innovations.

Without too much exaggeration, I think one could say that our rapid economic development was triggered by exports which, with time, permitted us to prime the pump of domestic demand.

This is quite different, of course, from what happened here in the United States, where enterprises started their growth on the largely domestic market which had a built-in great growth potential.

The first half of this century is, as far as Swedish industry is concerned, marked by the loss of capital and markets in the Russian Revolution, as I just mentioned. By the turbulent years of World War I, when many industries went bankrupt, or were totally restructured, and finally, by the Great Depression in the early 1930's, which also meant great loss of value and substantial industrial changes in Sweden, too.

The latter part of the 1930's is marked by reconstruction and slow growth in the industrial sector, a process continuing well into World War II. The period after that war meant a real explosion for Swedish industry. The reconstruction of Western Europe, in many ways thanks to the Marshall plan, meant that demand for products as well as for raw materials, was almost unlimited.

We were, indeed, lucky to have at that time an intact production structure permitting many enterprises to develop very rapidly. Lack of capital, however, was at many times our most severe constraint and it also set the limit to our economic development.

It was during this time that the pulp and paper industry became our most important foreign exchange earner, a position it holds until this day. But the most dramatic development took place in the mechanical engineering industry, when companies like Alfa-Laval, Atlas Copco, ASEA, SKF, AGA, Electrolux, and Ericsson and some of our steel industries, like Sandvik and Odoholm, expanded into leading positions on many foreign markets, a position they on balance hold in many countries to this day.

The car and truck industry, with names like Volvo, Scania and Saab, also gradually grew stronger by first replacing imported products on the home market and later on, through successful ventures on foreign markets, gaining a considerable foothold globally.

Of course, it must in all fairness be said that many technologies utilized by these enterprises at that time came from outside of Sweden, particularly from the United States.

What I've tried to explain to you in a very sketchy way is the very basis for what is generally referred to as the Swedish welfare system. Swedish export industries have made it possible to sell one-

third of our gross national product abroad, thus allowing us to import an equal amount of foreign products, adding to the wealth and the variety of our economy.

But this fact also means that we are quite vulnerable to economic problems outside of Sweden and highly dependent on the healthy growth in world trade.

Whenever we disregard this fundamental element, like we did in the 1970's, we quickly create serious difficulties for ourselves.

I would also like to draw your attention to some other salient features of the Swedish economy and industry. For instance, our industry is 92 percent in private hands. Although we also have seen, like other industrial nations, a growing trend toward institutional ownership, there still exists in Sweden a considerable number of private owners, or groups of owners, playing a most active role in our industry as owners.

Being a small nation, our unique language and culture cannot be exported. Or perhaps I should rather say be used abroad. This fact has more or less automatically led us to adapt ourselves to foreign markets and their particular features, as we have been forced, of course, to learn other languages to communicate with other nationals.

Going abroad, our industry has largely employed non-Swedes, local people, to direct its subsidiaries and operations. And it has also relied heavily on local advisers when developing their operations on foreign markets.

It seems to me that this, to a certain extent, can explain the success of our export industry, in the sense that it has developed a high degree of flexibility in adapting to local demand and requirements.

A third important feature in our system which also stems from our small size and homogeneity is, after all, the comparatively high degree of consensus and mutual understanding which almost always has existed on the Swedish labor market ever since the 1930's.

Briefly, I guess what we have managed to do reasonably well in Sweden is too apply good housekeeping rules to our very limited resources in terms of both manpower and capital.

We cannot afford much waste of our meager resources for any length of time, as the price of even small failures in our policies or businesses have far-reaching ramifications for our nation as a whole.

So what we set out to do, be it to open a new market or design a new military aircraft for our own needs, we must succeed, or almost succeed at the first attempt. Maybe in this lies our particular strength.

Well, having now perhaps given you what amounts to an overly glossy and idealistic picture of Sweden and Swedish industry, I should perhaps also mention something about our problems because we have plenty of them, too, believe me.

Up until the mid-1970's, or up until the early 1970's, Swedish industry, like that of most other OECD countries, enjoyed the easy times of postwar, record economic growth brought about by almost constant shortages of goods. Productivity grew annually at between 4 and 6 percent and we could afford rapidly increasing salaries, as

well as rising taxes, to finance the growth of our public sector by merely raising export prices.

We saw no real limits to our wealth and went about providing the nation with a most generous and, indeed, as we felt it, rather well-deserved social welfare system—in fact, a system to end all systems. Those were the happy days.

Then the oil-price shock struck home and changed everything for us, as it did for so many other countries in the industrial world. By this time, we had become so accustomed to generous salary increases that we let our labor costs run away by some 40 percent in the 2 years following the oil crisis as the then-preceding boom tapered off.

Already before this time, however, our budget deficit had started to grow in an alarming manner, not only in order to continue to support a most generous income transfer system, but also because of a parallel ambition to support sick industries like our major shipyards. That period was characterized by a serious cost crisis for industry and an equally serious deficit crisis for the public sector.

The result could be but one—devaluations and a rising foreign debt. We have clearly landed on the slippery slope of a weakening economy when our problems were further accentuated by the second oil shock in 1979.

At the beginning of the 1980's, it had become obvious to everybody that we could not continue on this road. Government started the very difficult process of trying to cut expenses and narrowing the deficit, a problem of its own with which I understand you here in the United States are also somewhat familiar.

With the change of government in the autumn of 1982, the Swedish krona was again heavily devalued and we began soon afterward to see the results in improved corporate profits, assisted as they were by rising world demand. This process was helped by a now widely accepted view that profits were a good thing again and that they must increase, something that had been out of fashion in Sweden for sometime since the late 1960's.

Swedish industry stopped losing market shares abroad and at home. In fact, they even started to rise to some extent. A further positive development was that the efforts to reduce our budget deficit slowly started to pay off. Policy toward ailing industries had been changed in a most marked manner, forcing us to restructure rather than to support, which, in most cases, meant closing down enterprises and factories which clearly had no future.

Sweden, which once upon a time was the second largest shipbuilder in the world, after Japan, has today no more shipyards, with the exception of a few very small repair yards. We only have a few iron ore mines, where it used to be one of the basic industries. We have greatly reduced capacities in steel, in textiles, in shoe manufacturing, and in many more areas, all as a result of restructuring efforts since the 1970's.

Of further importance to our ability to turn around a serious economic situation was the fact that the healthy enterprises which represent by far the majority in Sweden, even during the difficult 1970's, had continued their own process of rationalization and cost cutting.

So when our cost picture improved at the beginning of the 1980's, Swedish industry was prepared to meet an increasing world demand, fueled by the economic policy conducted by you here in the United States.

Now, naturally, it is impossible to present the full picture of the nation's economic history and policy in a few brief sentences like these here this morning. Like other nations, Sweden, too, has its specific situation to thank for much of what has been its role in an ongoing development of the outside world. In this context, I think it is both fair and correct to say that we drew a substantial benefit from the high-dollar value in the first half of this decade.

Many prices of our commodities in world markets were set in dollars. And it surely boosted our competitive edge in your market beyond our wildest dreams.

Among all factors that play an important part in any nation's well-being, the quality of manpower, however, seems to many of us to be the most prominent of all. Governments everywhere are faced with very much the same kind of problems these days and most of them follow more or less willingly a pattern of prescribed actions to solve these problems.

Yet, it is in the actual execution of these actions that we see the differences between nations. In this particular regard, I would suggest that the quality and availability of its workmanship in all sectors probably is one of Sweden's remaining strong, competitive advantages.

More about this will later be covered by my two friends here today, Mr. Allan Larsson, of the Swedish Labor Market Board, and further material and experience will be added, I know, by Mr. Gyllenhammar of Volvo.

I shall end my presentation here to leave room for questions which might better serve the purpose of describing Sweden from more angles than merely that of economic history. Believe me, there are many things all of us here would like to tell you about our country, so you're all invited to take part in the questions.

But before I leave this speaking chair, let me just say that although there are similarities, as well as dissimilarities between our two nations, we in Sweden firmly believe that trade made as free as possible is the world's best road to international understanding and, indeed, for lasting peace. Thank you.

[The charts and tables attached to Mr. Wallenberg's statement follow:]

Figure 1.

**Gross Domestic Product (volume), Sweden**

Rate of Change Per Year

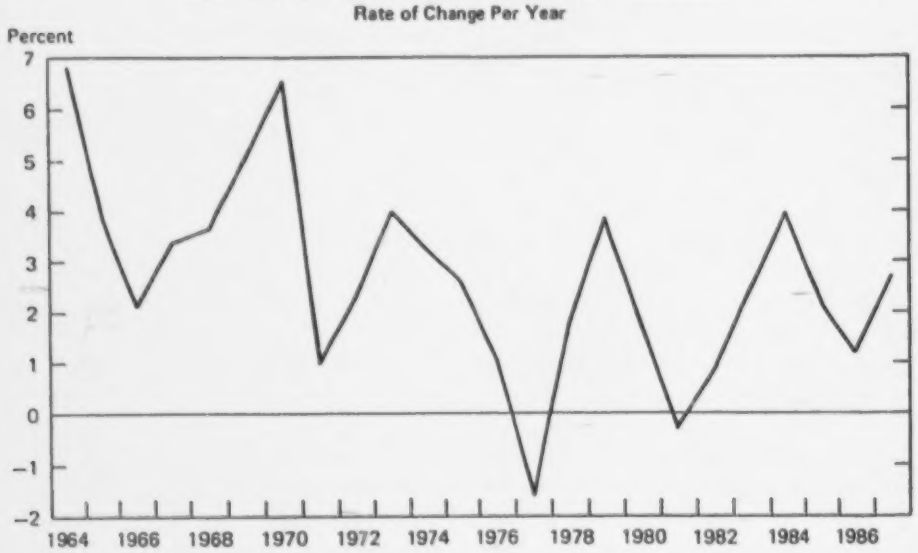

Figure 2.

**Consumer Price Index of Sweden & OECD**

Rate of Change Per Year

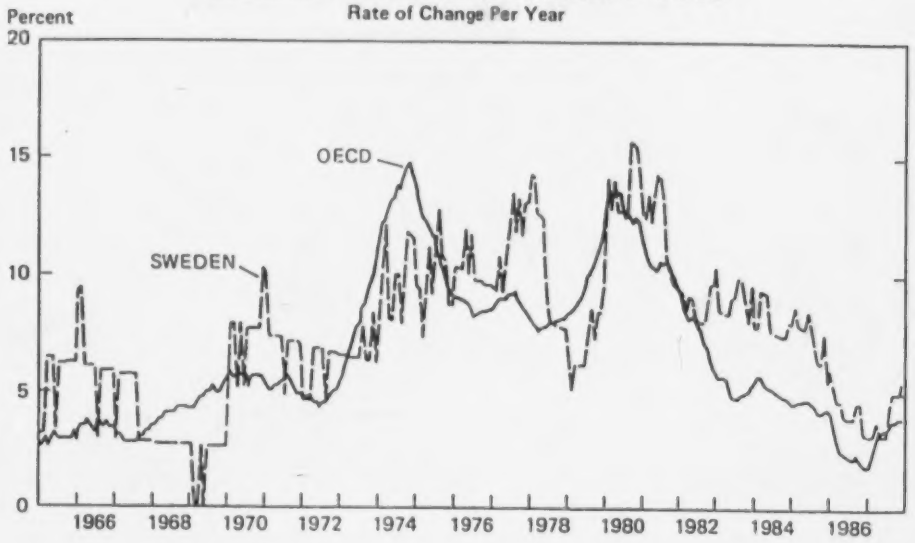

Figure 3.

**Balance of Payment of Current Account and State Budget Deficit as a Percentage of BDP**

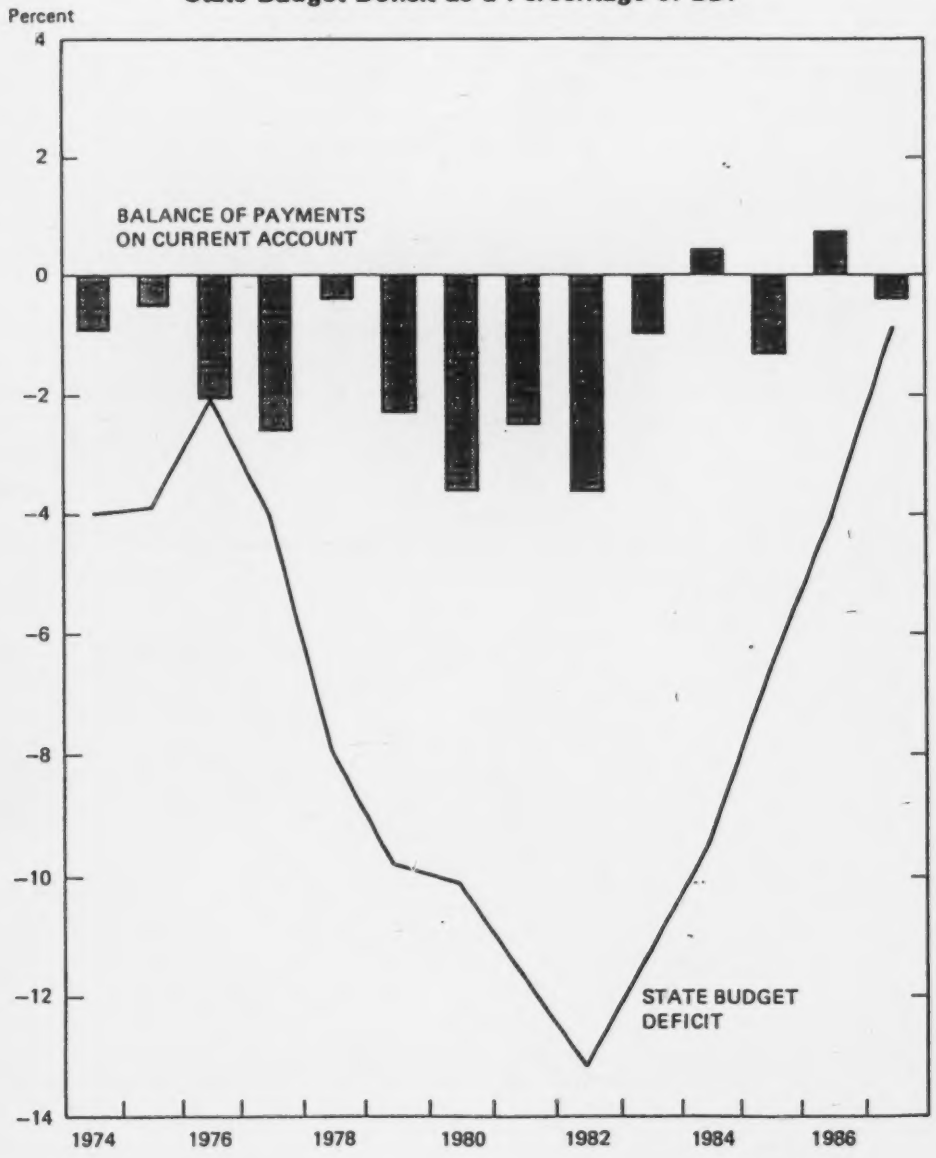

Figure 4.

**Unit Labour Costs of Sweden Relative to 14 OECD Countries 1970-1987**

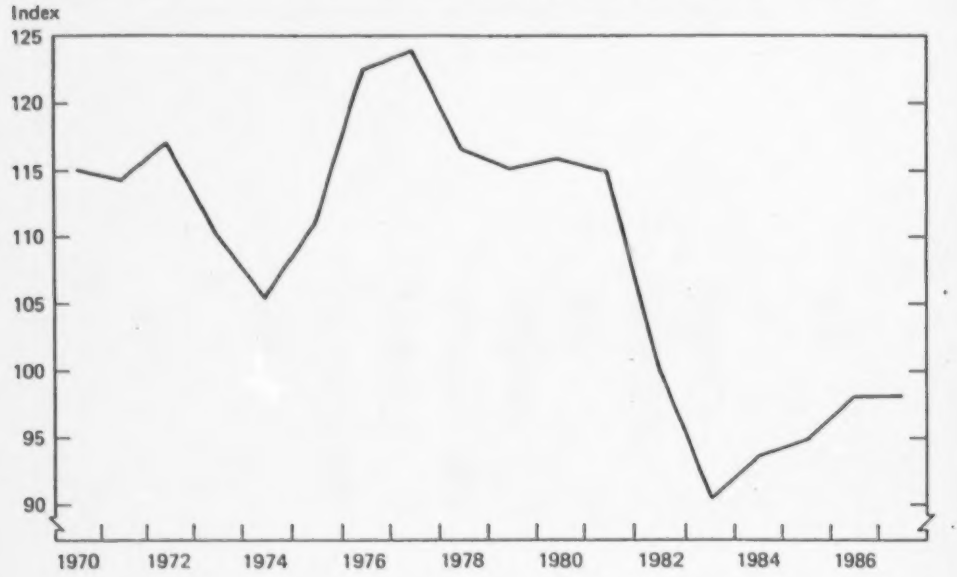

Figure 5

SWEDEN'S EXPORTS OF INDUSTRIAL PRODUCTS, 1965, 1974, AND 1986
Shares in Percentage

| Products | 1965 | 1974 | 1986 |
|---|---|---|---|
| Iron ore | 5.5 | 2.7 | 0.9 |
| Food | 3.4 | 1.8 | 1.9 |
| Textile | 2.6 | 3.1 | 2.7 |
| Wood products | 7.4 | 6.0 | 6.2 |
| Pulp and paper | 17.1 | 16.2 | 13.8 |
| Chemicals | 4.5 | 6.7 | 12.0 |
| Iron and steel | 8.1 | 8.5 | 5.5 |
| Metal products | 3.1 | 3.5 | 5.6 |
| Non electrical machinery | 15.7 | 16.1 | 17.3 |
| Electrical machinery | 5.6 | 8.0 | 8.2 |
| Ships | 7.2 | 5.1 | 1.8 |
| Motor vehicles | 5.7 | 9.1 | 15.8 |
| Others | 14.1 | 13.2 | 8.4 |
| Total | 100.0 | 100.0 | 100.0 |

Figure 6

TIME OF ESTABLISHMENT AND LOCATION OF MANUFACTURING SUBSIDIARIES IN OPERATION IN 1978

| Period of establishment | EEC | EFTA | Other Europe | North America | Other indus. countries | Latin America | Other developing count. | All Regions | Subsid. in operation in 1970 |
|---|---|---|---|---|---|---|---|---|---|
| 1875-1919 | 8 | 6 | | 3 | | | | 17 | (20) |
| 1920-1929 | 15 | 4 | 3 | 1 | 1 | 5 | 1 | 31 | (37) |
| 1930-1939 | 9 | 5 | | | 2 | 2 | 1 | 19 | (31) |
| 1940-1949 | 2 | 4 | | 2 | 4 | 10 | 1 | 23 | (30) |
| 1950-1959 | 20 | 4 | 1 | 7 | 1 | 12 | 1 | 46 | (57) |
| 1960-1965 | 38 | 10 | | 6 | 3 | 9 | 5 | 71 | (106) |
| 1966-1970 | 45 | 17 | 6 | 8 | 3 | 10 | 2 | 91 | (146) |
| 1971-1974 | 59 | 25 | 4 | 14 | 5 | 7 | 3 | 118 | |
| 1975-1978 | 77 | 20 | 5 | 17 | 6 | 22 | 4 | 151 | |
| Total | 273 | 96 | 19 | 58 | 25 | 78 | 18 | 567 | (427) |

Figure 7

FOREIGN PRODUCTION BY SUBSIDIARIES IN RELATION TO TOTAL SWEDISH FOREIGN SALES (EXCL. EASTERN BLOC), 1965-78

| Region | Production Abroad as Percentage of Total Foreign Sales | | | |
|---|---|---|---|---|
| | 1965 | 1970 | 1974 | 1978 |
| Developed Countries | | | | |
| EEC | 28 | 32 | 33 | 39 |
| of which Original EEC | 35 | 42 | 43 | 47 |
| EFTA | 13 | 14 | 12 | 16 |
| (Nordic countries) | (10) | (12) | (12) | (14) |
| Other European | 5 | 13 | 22 | 33 |
| North America | 47 | 37 | 38 | 46 |
| Other developed countries | 28 | 33 | 27 | 38 |
| Developing Countries | | | | |
| Africa, Asia | 29 | 18 | 11 | 4 |
| Latin America | 42 | 49 | 46 | 65 |
| All regions | 27 | 29 | 28 | 34 |

Note: Total Foreign Sales = total Swedish exports + manufacturing subsidiaries sales - their imports from Swedish group companies.

Figure 8

Sweden's 17 largest international corporations in 1986
in terms of employment abroad

| | Number of employees | | | | Total sales | Type of activity |
|---|---|---|---|---|---|---|
| | Sweden | Abroad | Total | % abroad | SEK millions | |
| AGA | 5 138 | 9 446 | 14 584 | 65% | 9 314 | Industrial and medical gas |
| Alfa-Laval | 5 627 | 9 833 | 15 460 | 64% | 10 156 | Dairy systems, centrifugal equipment |
| ASEA | 37 327 | 25 797 | 63 124 | 41% | 46 031 | Heavy electrical, robot |
| Astra | 3 283 | 3 485 | 6 768 | 51% | 4 960 | Pharmaceuticals |
| Atlas Copco | 4 407 | 12 091 | 16 498 | 73% | 10 351 | Compressed air equipment |
| Electrolux | 29 435 | 100 477 | 129 912 | 77% | 53 090 | Appliances |
| Ericsson | 38 559 | 34 016 | 72 575 | 47% | 31 644 | Telecommunications, computors |
| ESAB | 1 838 | 4 642 | 6 480 | 72% | 3 964 | Welding equipment |
| Esselte | 6 053 | 11 993 | 18 046 | 66% | 11 251 | Office supply products,printing |
| Euroc | 4 666 | 3 685 | 8 351 | 44% | 6 116 | Building material, equipment |
| PLM | 3 221 | 4 354 | 7 575 | 57% | 4 005 | Packaging |
| Saab-Scania | 37 888 | 9 519 | 47 407 | 20% | 35 222 | Trucks,automobiles aircraft |
| Sandvik | 10 584 | 13 449 | 24 033 | 56% | 12 721 | Tungsten carbide,tools |
| SCA | 11 770 | 6 344 | 18 114 | 35% | 15 217 | Paper and pulp |
| SKF | 7 850 | 37 037 | 44 887 | 83% | 19 758 | Ball bearings etc |
| Swedish Match | 7 639 | 17 917 | 25 556 | 70% | 10 897 | Wood products, matches,chemicals |
| Volvo | 52 309 | 18 904 | 71 213 | 27% | 84 090 | Automobiles,trucks etc |
| Total | 267 594 | 322 989 | 590 583 | 55% | | |

Mr. HARDT. Thank you, Mr. Wallenberg. The first formal discussant is Jerry Jasinowski.

## STATEMENT OF JERRY JASINOWSKI

Mr. JASINOWSKI. Thank you, Mr. Chairman, and distinguished ladies and gentleman. It's always a pleasure to participate in a Joint Economic Committee event and it's a particular pleasure today because of the quality of the presentation that I have to discuss. You've heard a very candid and, I think, balanced appraisal of Swedish economic history, pointing out that, for the most part, there's been substantial change in Sweden since the 1970's and succesful implementation of both stabilization and structural adjustment policies.

I think the author was quite correct in pointing out a number of these difficulties simply had to do with very bad macroeconomic judgments rather than some institutional flaw in the Swedish system.

Second, I think that he has pointed out, which most people don't really understand, the strength and dynamism of the private sector in Sweden. We know our competitors and our colleagues there, they are among the highest quality firms in the world. They've always been very good technologically, terrific marketers, and a high emphasis on quality.

They constitute, as Mr. Wallenberg said, 92 percent of the overall output. I think that differs substantially from other socialist systems in the world.

I think related to that point is the fact, as a general comment, that the improvement in the Swedish economy has been to some extent by a movement toward greater encouragement of this private sector, at the same time there was an effort to bring expenditures in the budget under control and a greater reliance both because of macroeconomic policy and also because of the realities of global competition to rely on the market.

That brings me to my final generalization before I want to draw some similarities and distinctions between the United States and Sweden. My final generality is that I think that it has now moved to a very interesting situation of relatively unique hybrid of both a high degree of policy activism and substantial encouragement to the private sector, so that it is best described as having moved to somewhat more mixed economy and having, I think a fairly, if not unique, very interesting set of policy activism from the government, as well as incentives encouragement to the private sector.

Now, with those general points in mind, the committee has asked me to draw some conclusions with respect to similarities of policies in Sweden and problems and policy issues in the United States and what I might deem as dissimilarities.

I think at the outset, just as Mr. Wallenberg stressed, it must be recognized that we are talking about two very different systems. Policies that are applicable in a small, export-oriented economy characterized by high levels of industrial concentration are not likely to be as applicable in a large, highly diversified economy that has historically relied primarily on domestic markets.

I think, on balance, the differences are greater than the similarities.

Having said that, let me turn first to what I would regard as five relevant points of the 1980 Swedish history because I think we'd rather not learn from some of the 1970's experiences, and then turn to two major critiques I would make in the continuing system.

First, the important lessons of the Swedish experience in the 1980's.

First, trade policy. Sweden has proved, in my opinion, far more adept at dealing with the balance of trade difficulties it experienced in the 1970's than has the United States in dealing with its more recent trade deficits. Sweden has successfully promoted industrial exports—they are one of the great exporting countries of the world—while keeping its exchange rates at levels commensurate with export growth reflecting what I would regard as a more sophisticated exchange rate policy than the United States.

Their use of value-added taxes in Sweden has also supported the trade sector.

Point number two—demand management or macroeconomic policy.

Sweden has been more successful than the United States at reducing its large federal deficit recently. It is to Sweden's credit that it was able to curtail expenditures sufficiently to reduce its budget deficit, starting from a much higher benchmark than the United States, as we refer to the 1980 period.

Third, investment incentives. In Sweden, both the use of implicit subsidies in the tax code and financial deregulation have been aimed at stimulating investment in export industries. Although Sweden has lagged behind the United States in terms of financial deregulation, in recent years, they have moved in very interesting ways to allow Swedish banks to provide and participate in the financial system in ways that are currently prohibited by the Glass-Steagall Act in this country and, I think, on balance, has enabled the support for the industrial system out of the financial system to be better than it would have been without those actions.

The use of targeted investment subsidies in the tax code, despite their awfully high tax burdens in general, is also one area in which the Swedes have shown considerable sophistication about the need to reduce capital costs and to encourage investment in order to become competitive and increase national productivity.

The fourth area is that it has supported its private sector multinational corporations in recent years to a degree that has allowed those corporations to become stronger.

It is to Sweden's credit that governments there, which stand considerably to the left of the United States on most issues, have in general been supportive of Sweden's private sector, recognizing that they are an export-led economy and that only a dynamic, highly sophisticated private sector capable to responding quickly to change could compete in today's export markets.

Fifth, and finally, I think that the emphasis that Mr. Wallenberg has put on the quality of manpower and the importance of that in terms of the competitive equation, all the way from encouraging attention to quality in our factories to the very serious deficiencies that we have in this country in both our education and training

institutions, is obviously an area in which we could learn substantially from the Swedes.

Since we have a number of members of the panel who are substantially more knowledgeable about that area than I, I'm sure we'll hear more about that.

Let me now turn to two brief areas where I think the Swedish experience, even in their more enlightened or successful period of the 1980's does not provide important lessons to be emulated by the United States in general.

The first is the scale of the public sector and the tax burden in Sweden.

The increase in the role of the private sector to the extent that it now approximates two-thirds of gross domestic product has progressed too far and continues to be a substantial problem with respect to the Swedish economy, in my opinion.

Admittedly, comparisons are not always meaningful since the public sector in Sweden accounts for service industries which are normally private in the United States. Nevertheless, having said that, there is, I think, still a substantial risk that the expansion of the public sector to this extent displaces the private economy both in terms of credit and in terms of the other dimensions of economic activity.

Related to this, if nothing else, financing the public sector requires setting tax rates at levels that create distortions and may have powerful disincentive effects. Sweden's low rate of individual savings may be a manifestation of tax drag.

In this respect, recent tax reductions in the United States do provide some model that Sweden may wish to examine closely in the future reorganization of its own tax code.

Second, the centralized wage bargaining system in Sweden should not be replicated in the United States. While centralized wage setting under government auspices provides one means whereby governments can theoretically control wage increases and, in practice, it may have worked in Sweden on some occasions, in general, it does not lead to this; it, instead, and this has occurred in Sweden in a number of cases, raises the cost of labor beyond the competitive levels necessary in terms of world competition.

Attempts to impose incomes policies in the United States have generally failed to control inflation, having had some experience with them myself, and have sometimes led to the imposition of unrealistic wage-price targets as they relate to productivity.

Let me stop there with that discussion of differences and similarities and make only one final comment with respect to something that Mr. Wallenberg said at the end of his statement with respect to the importance of open international trade.

I would broaden the point, Mr. Wallenberg, and simply say that I think we are at a point, and one of the reasons why I think that this is a very important symposium, we are at the point where the global economy has changed the parameters by which both Sweden and the United States must view our economic future. And that in addition to making every effort to keep trade open, which certainly the vast majority of American manufacturers feel should be the case, and certainly, we as an institution, and I personally, feel that that's the case, and I'm pleased that we have very few trade diffi-

culties between the United States and Sweden and wish that were the case with respect to many other countries.

I'd only add to that point on trade that I think that the issue of what I would broadly call strategic alliances having to do with everything from the sharing of technology to marketing and, of course, the very critical element of direct investment on the part of both the United States and Sweden as the historical concept of the corporation is in some case modified in order to deal with the realities of today's global economy. I think that would be not as important as open and free trade, but certainly, over the next decade, will come to be as important in my view with respect to the relationship between our country and yours and between our private sector and your private sector.

So let me stop at that point and say, again, it is a great pleasure, Mr. Chairman, to be here to have an opportunity to comment on such a fine presentation and to share in this symposium. Thank you.

[The complete statement of Mr. Jasinowski follows:]

COMMENTARY

Jerry Jasinowski
Executive Vice-President, Chief Economist
National Association of Manufacturers

I am in substantial agreement with the major thesis of this paper, that Swedish economic performance has substantially improved in recent years, due to the successful implementation of stabilization and structural adjustment policies. The difficulties experienced by the Swedish economy during the late 1970's, were in some circles diagnosed as a breakdown of the Swedish socio-economic "model" with its heavy emphasis on aggressive state interventionism. The Author, however, correctly points out that these difficulties can more accurately be attributed to specific mistakes in macroeconomic policy and to simultaneous unrelated changes in Sweden's position in the world economy which necessitated a restructuring of its industries.

Moreover, while Sweden has frequently been maligned in the United States for its extensive social service system, it is less well understood that Social-Democratic governments in this country have by and large not sought to achieve state control of industry, but rather have left the running of the manufacturing sector, which is heavily multinationalized, essentially in private hands. Sweden is therefore less "socialistic" than is sometimes made out; it is better described as a mixed economy with a government committed to policy activism.

Finally, the new structural adjustment and stabilization policies undertaken since the early 1980's appear to have been at least partially successful, with the result that the Swedish welfare state appears to have been strengthened by moving it in the direction of greater market reliance. From the perspective of the United States, and in order to address the realities of global competition, it would appear that the emphasis on the private sector should continue to be strengthened.

## IMPLICATIONS FOR AND COMPARISONS WITH THE AMERICAN EXPERIENCE

Prior to overviewing key elements of the Swedish economic performance, I would like to bring together some of the key findings of this experience, and its possible implications for the United States. At the outset it must be recognized that the differences between the two countries are likely to outweigh the similarities. Policies that are applicable in a small, export-oriented economy characterized by high levels of industrial concentration are not likely to be applicable in a large, diversified economy that relies primarily on domestic markets. Nonetheless, there are certain common elements in the experience of both countries that contain significant implications for the conduct of policy.

Let me begin with areas in which Sweden has in general performed well.

Trade Policy. Sweden has proved far more adept at dealing with the balance of trade difficulties it experienced in the 1970's than has the United

States in dealing with its more recent trade deficits. Sweden has successfully promoted industrial exports, while keeping its exchange rate at levels commensurate with export growth. The use of value-added taxes in Sweden has also supported the trade sector.

Demand Management Policy. Sweden has been more successful than the United States at reducing its large fiscal deficit. It is to Sweden's credit that it was able to curtail expenditures sufficiently to virtually eliminate its budget deficit, starting from a much higher benchmark than in the United States. In part, this reflects the fact that in Sweden fiscal policy is very highly geared toward countercyclical demand management. By comparison, one of the reasons that the United States has experienced chronic fiscal deficits is that fiscal policy has been more subject to political priorities and has not been forced to adhere to macroeconomic targets.

However, it is significant that the United States did not commit the same kinds of policy blunders as Sweden during the mid-1970s; because American policy makers did not accommodate the rise in OPEC oil prices, American inflation rates have generally been lower.

Investment Incentives. In Sweden, both the use of implicit subsidies in the tax code and financial deregulation have both been aimed at stimulating investment in export industries. Sweden has actually lagged well behind the United States in the deregulation of its financial sector, although there are specific areas in which Sweden is now moving ahead. For instance, Swedish banks are now moving into areas from which American banks are still barred by archaic regulations such as the Glass-Steagall Act. The use of targeted investment subsidies in the tax code is also one area in which Sweden has not made the mistakes committed by recent revisions of American tax laws that substantially diminished investment incentives.

Support for the Multinationals. It is to Sweden's credit that governments there (which stand considerably to the left of the United States on most issues) have supported rather than discouraged the multinationalization of Sweden's private sector. The net result has been a considerable strengthening of the Swedish industrial sector, which has contributed to the recent success of this country in world trade.

However, there are several areas in which the Swedish experience has been sufficiently adverse that it should not be emulated here.

Scale of the Public Sector. The increase in the role of the public sector, to the extent that it now comprises some 60% of GDP, has progressed too far, and should now be scaled back further. Admittedly, comparisons are not always meaningful since the public sector in Sweden accounts for service industries which are normally private in the United States. Nevertheless, there is a serious risk that expansion of the public sector to this extent risks displacing the private economy. If nothing else, financing the public sector requires setting tax rates at levels that create distortions and may have powerful disincentive effects. Sweden's low rate of individual savings may be a manifestation of tax drag.

In this respect, recent tax reductions in the United States provide a model that Sweden may wish to examine closely in the future reorganization of its own tax code. Further, a case can clearly be made that at this juncture

the Swedish economy would benefit from some reduction in social services--which already provide birth to death security -- and a greater emphasis on private sector activity.

Centralized Wage Bargaining. The centralization of collective bargaining in Sweden should not be replicated in the United States. While centralized wage-setting under governmental auspices provides one means whereby governments can theoretically control wage increases, in practice, one of the results has been to ratify unrealistically high labor costs. Of course, some of this may be due to the fact that full employment puts Swedish labor markets under considerable pressure. However, attempts to impose incomes policies in the United States have generally failed to control inflation, and have sometimes led to the imposition of economically unrealistic wage-price targets.

Bearing these generalities in mind, I would like to examine certain key elements of the Swedish experience in greater depth.

## SWEDEN'S SOCIO-ECONOMIC SYSTEM

Although Sweden is internationally recognized as the archetypal welfare state among the industrial countries, it is useful to draw attention to specific elements of this country's macroeconomic policies.

1. Demand Management. The institutionalization of Keynesian principles--the active management of aggregate demand--has progressed further in Sweden than in any other industrial nation. Since the Swedish business cycle has been predominantly export-led, fiscal policy has aggressively leaned against the prevailing direction of trade volumes, with the result that both government spending and monetary policy have tended to move countercyclically. The underlying objective of this countercyclical activism has been the preservation of high employment. The success of Swedish policy makers in smoothing out cyclical fluctuations at least until the adverse events of the mid-1970's stemmed in part from the size of the public sector and in part from the centralization of control over fiscal and monetary policy: fiscal policy was initiated with specific demand-management objectives, and the central bank (which is controlled directly by the parliament) has normally ratified fiscal impulses. The result was that the major recessions of the 1950's and the West German recession of 1966 were largely averted in Sweden as fiscal activism was used to effectively "bridge over" periods of slack export demand [Myhrman (1979)].

2. Industrial Policy. Although Sweden has not engaged in the centralized planning characteristic of Japan and France, the government has exerted a powerful influence over the sectoral composition of output through a variety of mechanisms. These include regulatory controls over credit flows and the channeling of investment through implicit subsidies in the tax code. These techniques were usually sufficient to achieve Sweden's industrial policy objectives during the period of continuous growth from the 1930's to the mid-1970's, but since that time more direct intervention in specific sectors has been impelled by external factors.

3. Incomes Policies. In contrast to the sporadic wage-price controls imposed by legislative fiat in the United States, Sweden can be characterized

as systematically corporatist in its incomes policies. Collective bargaining is centralized, wages are determined for the entire economy by nationally-based business and labor federations, with the active participation of government officials. This ability to control inflation through collective bargains, however, has been offset by the maintenance of full employment, which implies secular upward pressure on wages, yielding a tendency for Sweden's inflation rate to diverge above the European average.

In the determination of wage targets, Swedish planners have been guided since the 1960's by the Scandinavian (or EFO) model of inflation, formalized in Aukrust (1977) and Lindbeck (1979). Reduced to the essentials, the Scandinavian model posits that in a small open economy the inflationary process is driven mainly by the arbitrage of traded goods prices into domestic wage formation. Therefore, the range for annual wage settlements is a function of price increases in the external sector. The rate of inflation in traded goods industries sets the implicit range for wage increases commensurate with retention of balance of payments equilibrium. If domestic wages fall below this threshold, the differential in unit labor costs relative to trading partners will generate an export boom, eventually pulling wages up through labor market mechanisms. Similarly, if wage settlements exceed the implied path, the resulting losses in competitiveness generate trade deficits and higher unemployment, eventually bringing wages back within the threshold level.

4. Multinational Enterprise. Sweden differs from many countries with long histories of government by Social-Democratic and Labor parties in that the government has not attempted to nationalize the country's major industrial corporations (except under conditions of extreme duress), but rather has allowed the private sector to operate with few restrictions in the global economy. This experience stands in striking contrast with for instance the British Labor party and the French Socialists, both of whom made nationalizations the central component of their economic strategies. While a large share of Swedish output flows through the public sector, this reflects not so much government-run enterprises as social services. Thus, although Sweden levies unusually high rates of taxation on incomes and corporate profits, these incomes are derived for the most part from private sector enterprise.

One element of this strategy has been to encourage the formation of large-scale multinational enterprise. As a small, trade-oriented economy, Sweden could not hope to develop economies of scale by operating solely within the domestic market. Instead, it has actively stimulated the formation of multinational conglomerates with worldwide operations. This has enabled Swedish corporations to achieve a much higher share of global trade than Sweden itself, and has facilitated the emergence of advanced manufacturing firms with a substantial stake in foreign markets; two of Sweden's largest corporations, Volvo and Electrolux, are cases in point. In contrast to the argument sometimes alleged against multinationals by labor unions, the multinationalization of Swedish enterprise has not for the most part led to job losses in the home country; rather, the enhanced profitability of these firms has contributed to the maintenance of high employment in Sweden, and to the revenue base necessary for the support of the social welfare system.

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## MACROECONOMIC POLICY IN THE MID-1970'S

After several decades of successful demand management and retention of export competitiveness, Sweden experienced an adverse wage differential starting in 1974, caused in part by a series of errors in demand management. The breakdown of coordinated countercyclical stabilizations and incomes policies at this juncture is all the more surprising because of the progress previously achieved in controlling inflation during the early part of the decade.

During the worldwide boom of 1970-73, when inflation rates were raised throughout the industrial countries by the synchronized expansion of demand, Sweden actually succeeded in lowering its domestic inflation rate through fiscal restraint. After having successfully "tunneled under" the global inflationary boom of the early 1970's, however, Swedish policy makers committed the serious error of attempting to "bridge over" the worldwide recession of 1974-75 by systematic reflation in the face of the first OPEC crisis. The decision to reflate was all the more dangerous because by 1973 considerable pressure had developed on wages, due to the rise in export prices. The unusual aggressiveness of Swedish unions in 1974, which was implicitly ratified by demand management policies, produced a wage explosion in which unit costs jumped by over 40% at a time when demand for Swedish exports was slack. The wave of inflation meant that the stimulative policy had to be abandoned, and Sweden lapsed into a serious downturn in 1976-77. The independent effects of the first OPEC shock on output in Sweden, a country that was almost wholly dependent on imported oil, appear to have been generally underestimated with the result that policymakers generally expected a return to normalcy by the time of the world recovery in 1976. Instead, the sluggishness of the global recovery, and in particular the restrictive disinflationary stance of policy in Germany, meant that Sweden's export performance at this juncture was too weak to keep the economy out of recession. In essence, by the late 1970's, Sweden was in a situation of chronically high labor costs relative to its trading partners and an ongoing balance of payments crisis.

The distinctive macroeconomic strategy pursued during the mid-1970's illustrates the inherent difficulties involved in reconciling the objectives of high employment and external competitiveness, and in particular the dilemmas confronting Social-Democratic parties. Several other left-of-center governments attempted to avoid the global recession of 1974-75--the Finnish Socialists and the Australian Labor government are cases in point--but in each instance the result was a rise in inflation and a deterioration in the external balance. By comparison, the strategy adopted by the West German Social-Democrats and Austrian Socialists of using monetary policy to offset the OPEC shock while persuading the labor unions to make wage concessions, ultimately ranks as a much more successful example of how left-of-center governments were able to deal with the global rise in energy prices without incurring mass unemployment.

## THE PROBLEM OF STRUCTURAL ADJUSTMENT

The deterioration in Sweden's labor cost position had the additional disadvantage that it coincided with increased competition from emerging Third World nations in many of this country's traditional export sectors. Sweden's

comparative advantage in certain primary export sectors--iron ore, timber--was gradually eroded by LDCs which could produce at lower prices, while one of its key manufacturing sectors, shipbuilding, was increasingly displaced by competition from Japan and South Korea. The result was that the government was forced to devalue repeatedly without being able to halt a secular deterioration in many of its traditional exports.

The structural adjustment policy that evolved at this time consisted of a process of managed decline under the aegis of governmental protection. For instance, the major shipbuilding companies were nationalized and consolidated into a single public-sector monopoly. The adjustment process was rendered all the more difficult by the second OPEC shock in 1979-80 and the global recession of 1981-82. The working out of a coordinated program was also hampered by the absence of political leadership at this time. In 1976, the long-reigning Social-Democratic party was replaced in office by a coalition of the three non-socialist parties which, however, seemed unable to work together effectively. During the next six years, Sweden had four separate governments, two of them minority cabinets. The result was an extended period of stagnation in which a series of new problems manifested themselves: costly subsidies to declining industries and the maintenance of Sweden's extensive social services coupled with inadequate growth in revenues raised the combined fiscal deficit to over 10% of GDP in the early 1980's. The financing of this deficit, much of which was structural rather than cyclical in origin, required systematically crowding the private sector out of capital markets through credit controls, in addition to relying heavily on foreign borrowing. This stop-gap effort implied serious costs to the private sector, and was generally viewed as unsustainable in the long run.

## THE 1982 REVITALIZATION STRATEGY

It was not until the early 1980's, coinciding with the reemergence of greater political stability, that Sweden was able to develop a concerted strategy for dealing with the problems of the 1970s. The major elements of this strategy can be briefly summarized:

Devaluation. In 1982, the new government undertook a sharp devaluation of the krona to well-below purchasing power parity, coupled with a agreement from the labor unions to hold back wage increases. The effect of the competitive devaluation was a marked export boom during the early 1980s. The rising contribution of net exports to GDP was enhanced by the simultaneous fall in energy prices. Previously, Sweden's balance of payments difficulties during the 1970's had forced it to leave the EMS and peg to a wider group of currencies. Ironically, this strategy yielded some unanticipated advantages: the recent realignment of the dollar has enabled the Swedish krona to follow the dollar down against the major West European currencies, generating a substantial increase in trade competitiveness.

Fiscal Restraint. Fiscal policies were made sharply restrictive in 1982-87, primarily through curtailment of discretionary spending and through reductions in social services, which was facilitated by higher GDP growth rates. Tax increases were a minor component of the strategy, since the government's take could not be raised without risking excessive tax drag on the private sector. The success of the fiscal restraint program can be gauged from

the fact that the deficit declined to 1.5% of GDP in 1985, while the budget is projected by the OECD to be in surplus during the remainder of the decade. The result has been both a substantial freeing up of resources for the private sector and an increase in the aggregate savings rate through diminished government dissaving.

Investment Incentives and Financial Deregulation. Sweden has long maintained generous tax provisions for depreciation; for certain categories of investment, corporations are able to effectively recover more than 100% of capital costs in advance. In the early 1980's, additional measures were taken, primarily through financial deregulation, to encourage flows of capital to the private sector. Following the relaxation of interest rate ceilings in 1978, in 1983 quantitative controls on issuances of corporate bonds were abolished, along with the banks' liquidity quotas on government and housing bonds. Finally, in 1985 bank lending ceilings were abolished. The development of a money market was facilitated by the issuance of new financial instruments and the emergence of a larger secondary market for bonds. The net result was a considerable liberalization and rise in the efficiency of the financial sector. Interestingly enough, while the financial deregulation of corporations gave them greater access to bank loans, the debt-equity ratios of corporations have actually declined, since major firms have been able to substantially augment their holdings of financial assets.

The capital formation incentives may appear at first sight less successful in the aggregate than other aspects of the industrial strategy since the private investment share of GDP actually declined during the early 1980's. However, this must be understood in the context of excess capacity in the declining industries. In the critically important manufactured export sector, investment increased and productivity growth accelerated. In this respect, the basic objective of Swedish industrial policy in the 1980's, which has been to raise investment and productivity in its new exporting sectors--transportation equipment, machinery, electronics, high technology engineering, has been at least partially achieved.

## RESULTS AND PROSPECTS

I agree substantially with Peter Wallenberg's conclusion that the long-term outlook for Swedish industry is favorable. This country seems well on the way to achieving an adjustment from primary exports and traditional manufactures to newer, more advanced manufactured exports. Simultaneously, it seems to have successfully reversed the fiscal imbalance that emerged in the late 1970's. In this respect, Sweden's policy of systematic fiscal restraint in order to raise aggregate saving and mitigate the crowding out process in capital markets has considerable significance for countries like the United States which have grappled for years with a seemingly intractable fiscal imbalance.

In the intermediate term, however, several adjustment problems remain. First, because Sweden operates at high employment at a time when the industrial countries as a whole are still operating with mass unemployment, Swedish wage costs are likely to continue rising more rapidly than those of its main trading partners. Sweden's ability to benefit from the devaluation of the dollar has to some extent concealed the fact that its labor costs are too high relative to

the other industrial countries, even in Europe where high wages are the norm. Stated another way, Sweden's labor costs are at a level at which the country must resort to repeated exchange rate devaluations in order to remain competitive. At some point, governments will face the choice between greater slack to emerge in labor markets—an unpalatable choice for the Social-Democratic party--or adopting a more aggressive program of wage restraint. The policy of the Austrian Socialists, of tying wage increases more directly to levels commensurate with high employment and export competitiveness, could be successfully adapted by the Swedish Social-Democrats.

Second, the growth rate of capital investment in the export sectors will be critically dependent on several factors—the profitability of the corporate sector, the growth rate of the world economy, and the tax drag exerted by Sweden's large public sector. While Sweden has operated successfully as an advanced welfare state throughout much of the postwar era, there is now an increasing recognition that the public sector in many of the welfare states was allowed to become too large, to the extent that it risked suffocating the private sector. The policy of fiscal restraint adopted by the Social-Democrats since 1982 indicates that this party is not dogmatically wedded to continuous expansion of the public sector, but rather has recognized the need to reduce the role of government and free resources for the private sector. Nevertheless, it may be necessary to go even further. At a time when tax rates are being reduced throughout the industrial nations, Sweden's high tax rates are in the process of becoming a disincentive for producers to remain in this country; reductions in direct taxation accompanied by some curtailment of social services would in this respect free up additional resources or the private sector without endangering the welfare of the majority of Swedes.

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Mr. HARDT. Prof. Olivier Blanchard of the Massachusetts Institute of Technology will be the next discussant.

## STATEMENT OF OLIVIER BLANCHARD

Mr. BLANCHARD. Thank you. Mr. Chairman, ladies and gentlemen, after listening to the lucid presentation by Mr. Wallenberg, it is not difficult to see why the Joint Economic Committee has decided to look at the recent Swedish experience very carefully.

I think there are two numbers that make the point. Simply, if you look at Sweden in 1982, the fiscal deficit was roughly 6.3 percent of GNP. The current account deficit was equal to 3.7 percent of GNP.

The similarity with current numbers in the United States is indeed striking, although our numbers are a bit smaller. For 1987, the two numbers hover around 3.5 percent. So there is a sense in which Sweden was in 1982 suffering from the U.S. illness, except maybe taking the numbers literally, having a more acute case of illness.

It is, therefore, clear that by looking at what Sweden has done since 1982, we may first get a peek at our future on a more positive note, learn things that can improve it.

It is in that spirit that I listened to Mr. Wallenberg's remarks and it is in that spirit that I shall analyze the developments in Sweden since 1982.

The starting point is, first of all, to look at what has happened since 1982 in Sweden. The first look at the macroeconomic data looks like a success story. If you look at the numbers which were wrong in 1982, these numbers look marvelous as of 1987. The fiscal deficit has turned into a fiscal surplus. For 1987, the OECD number is enormous. It is 3.9 percent of GNP. This is in large part a blip, but it indicates a very major change in the budget position.

If you look at the current account deficit, it disappeared very quickly and in 1987, it had turned into a small, insignificant, but still positive, surplus, 0.29 of GNP.

At the same time, if you look at the other macroeconomic indicator which you might want to look at in a context like this, which is unemployment, then unemployment which was equal to 3.2 percent in 1982, a large number by Swedish standards, is now down to 2 percent.

Now this is the first look, and if we stop there, then the things would look great.

Could the numbers be misleading? If one computes the cumulative growth of GNP from 1982 to 1987 for Sweden, one gets a number of 13 percent, a little over 2 percent per annum. This is not bad; it is not great. A useful comparison is with the rest of Europe, which is usually perceived as having done quite badly during the same period.

The cumulative growth rate for the rest of Europe, of OECD Europe, was of 12.7 percent, very close to the cumulative growth rate of Sweden.

During the same period in Europe, the unemployment rate which was already high in 1982, increased further by 2.5 percent.

What do we do with this discrepancy between the decline in unemployment and an OK growth rate performance? Well, we know that unemployment in Sweden is different from unemployment in the rest of the world. We know that the Government goes to long lengths in order to avoid unemployment. It has created training programs, labor market programs is as large as the number of people officially unemployed.

Once we know this, what do we decide?

One position which has often been taken in this country is to dismiss the unemployment numbers and talk of statistical manipulation and say that, in fact, Sweden has done quite badly.

My impression is that this is not the way to think about it at all. From the reality of the labor market, the reality of the labor market is one of low unemployment. This is not true of output, which may not be as high as it could be, but from the point of view of the labor market, workers perceive a labor market with low unemployment.

I shall argue later when we come to how this was achieved to the potential importance of that factor which is very specifically Swedish.

What about the other numbers, the fiscal and current account numbers? Could it be that we are meeting this year because the numbers are good, but next year, things will be much worse?

On this we have forecasts and what the forecasts suggest is that, indeed, this year, in a way, may be the best of the next three. The forecasts I've seen suggest a small deterioration of the fiscal surplus and a small deterioration of the current account balance with some deficit 2 or 3 years ago.

These forecasts are, however, within the usual range of uncertainties associated with the future. What these forecasts surely do not show at this stage is catastrophe 2 years down the line. There are always uncertainties in economic policy in forecasting and I think this is what we're seeing now.

So my conclusion after this very brief review of the basic facts is that, if the United States was to do in the next 6 years what Sweden has done over the last 6, then I think we should consider ourselves very happy, indeed.

The next set of questions is how did Sweden do it? And here, not surprisingly, it has done it by a combination of macroeconomic and microeconomic policies.

So let me proceed in step and first look at macroeconomic policies.

The difference in the strategy of Sweden compared to the strategy used in the rest of Europe is very striking. The strategy used in the rest of Europe, which started, depending on the countries, between 1979 and 1982, was to go for fiscal contraction, called fiscal austerity, and to keep a very tight lid on monetary growth.

The strategy was based on the idea that the increase in competitiveness, which requires a decrease in real wages, would be achieved by high unemployment. Unemployment was the main tool to achieve a decrease in real wage demands in those countries.

The strategy in Sweden was quite different. The need for fiscal contraction was obvious from the deficit numbers which I had mentioned. So fiscal contraction was half of the strategy. The other

half, however, was quite different. The other half was to try to replace the decreasing internal demand which necessarily comes from fiscal contraction by an increasing external demand and increasing competitiveness.

The tool used for that was to use the two devaluations, the two main devaluations of 1981 and 1982. Under that scenario, the strategy was, as government spending overall was slowing down, to increase exports, to improve the trade account, to substitute external demand for internal demand, without having to go for unemployment. And I think, again, this insistence on not choosing unemployment as a discipline device is an essential element of the story in Sweden.

How did the strategy work? To an American eye who has looked at the fight of budget cuts and the never-turning J-curve, the numbers are very surprising. It happened very fast.

By 1986, fiscal deficits, which, as we have seen, were on the order of 6.3 percent in 1982, were roughly equal to zero. The current account deficits disappeared even faster. The J-curve really had an effect only for a year in Sweden and in 1984, the current account deficit had been eliminated. There was again a small deficit in 1985, but by 1984, it was achieved, a remarkably fast achievement, which forces us to think about why it is that they were so successful.

There are two parts. The first one on which I have no expertise at all is the fiscal aspect—how is it that the consensus was achieved to decrease the deficit within 6 years by that amount? I have no insights into that.

But the other part is the very strong effect of devaluations on the current account position. Here, I think there are two things to say. The first thing is that Sweden is a very open country, something which has been said twice already. And when a country is importing 30 percent of its GNP, then, clearly, a devaluation has much more effect than for a country like the United States.

I think the other part which must be central and was the theme, I think, of Mr. Wallenberg's remarks, is that the Swedish industry was ready to use this increase in competitiveness to go out and increase market share.

The Swedish industry has restructured itself sufficiently to be in the position to take advantage of this improvement in cost.

This leads me to turn to microeconomic policies. For the Swedish strategy to be successful, two conditions had to be met. The first one was that the depreciation would turn out to be a real depreciation, would not be offset by wage increases making, in the end, the depreciation go away.

The second condition was, as I have said, that the private sector be in a position to respond to the improvement in competitiveness.

Let me take both in turn and I think in both cases there are specifically Swedish elements at work which made it work and could not be used wholesale in any other country.

The fact that wages were not increased or not increased very much after the devaluation of 1981 and the devaluation of 1982, must be attributed to centralized wage bargaining. I think it would be extremely difficult to achieve that result in a decentralized bargaining context.

Now, we know and we have learned from the 1970's in Sweden that centralized wage bargaining is far from a cure-all. Sweden didn't do very well with centralized wage bargaining in the 1970's. But I think that in the 1980's, maybe because it had worked so badly in the 1970's and people had realized the problems with it, I think centralized wage bargaining must have been an essential element which allowed the depreciations of 1981 and 1982 to turn into low-unit labor costs compared to the competitors.

Turning to the other aspect, which is the restructuring which has taken place and here, it clearly had taken place before 1982, but has gone on after that, what I hear from Mr. Wallenberg is a very optimistic message, that there are clouds on the horizon, but potentially cost problems a few years down the line, but overall, the restructuring has gone a long way. The Swedish industry is ready for the next 10 years.

If you were to ask somebody in this position in other European countries, I do not think that you would get that kind of optimistic outlook. You would hear that restructuring is going on slowly, but that most of it is still in the future rather than achieved.

If I take Mr. Wallenberg's statement at face value, and I have no reason not to, the question is why was restructuring done in Sweden so much better than in other European countries?

Here we have to turn to, again, specifically Swedish institutions. I'm not thinking here of the subsidies to firms in the goods market, and I think, overall, there seems to be general agreement that these subsidies have not been terribly useful. They have gone to dying industries, for the most part, and haven't helped the others very much.

My impression is that the important aspect may be the labor market again.

It is my impression, and this based not only on looking at Sweden as a positive case, but on looking at the rest of Europe as a negative case, that it is infinitely easier to restructure in an economy with low unemployment than in an economy with high unemployment.

In an economy with low unemployment, labor reallocation or increases in labor flexibility are not perceived as life threatening by the workers. If they lose a job, there's some implicit commitment that they will find a job somewhere else, maybe not right away, but very soon.

If I look at the rest of Europe, which has adopted this different strategy, it looks as if when unemployment is very high, you get a very strong adverse reaction of workers to any attempt to increase labor flexibility. This is a rational reaction in the sense that more labor flexibility in that context means a high probability of losing a job and to become long-term unemployed.

It seems to me, therefore, that the commitment of Sweden to low unemployment is more than statistical manipulation; it is a very important element of the Swedish success.

To conclude, I think we have a lot to learn from what has happened in Sweden over the last 5 years. I do not think it has been a miracle, but it has been a fairly good show.

We cannot buy the Swedish institutions as they are. We do not have the culture or the tradition to do so. But we should look at

ways of importing parts of them, and I think this might help us do well in the next 5 years.

Mr. HARDT. Thank you. May I suggest that we limit the comments to those that you might have, Mr. Chairman, and perhaps a few reactions on the part of Mr. Wallenberg and proceed in the interest of time, and those comments that Congressman Scheuer might have, and reserve further discussion to the end of the third panel because, otherwise, our tyranny of time will overtake us.

Senator SARBANES. Well, I think that's a very good suggestion. I'd also make the further observation that the other panelists may develop certain aspects of the subject in their presentation which would take care of questions that otherwise might have been raised if we turned to questions at this point.

In order to move the process along, I'll therefore, defer to Congressman Scheuer, who's been able to join us.

I would say to our panelists that we're dealing in a difficult legislative environment today. The House is considering the important issue of aid to the Contras.

And we hope that some of our colleagues will be able to move in and out in the course of the morning.

So I'll defer to Congressman Scheuer, but I think the suggestion is very well taken.

Representative SCHEUER. It's a great honor and a great privilege to be here. I think we ought to get on with the show and we'll have time for comments later.

Mr. HARDT. May I make another suggestion? We had planned to have a break at sometime during the proceedings. May I suggest that we have a brief break of 5 minutes at this time and proceed to the next panel and not have any other breaks?

Would that be agreeable? I would solicit the cooperation of the audience to 5 minutes, actually chronological time. [Laughter.]

[A brief recess was taken.]

Mr. HARDT. Mr. William Cox of the Congressional Research Service will moderate the next panel.

## INDUSTRIAL RESTRUCTURING AND LABOR MARKET POLICY—WILLIAM A. COX, MODERATOR

Mr. Cox. Thank you very much, Mr. Hardt. It's my pleasure this morning to introduce our second speaker and discussants of his presentation. Our second speaker is Mr. Allan Larsson, who is director general of the Swedish National Labor Market Board.

The Swedish National Labor Market Board is not an ivory tower commission. It is a large organization with representatives at the central, regional, and local levels of the Swedish economy employing about 10,000 people.

I would guess that the U.S. Government employs by a factor of several fewer people than that in the national implementation of labor market policies of this kind. Of course, we have our State and local services in this area under the State and local governments.

The National Labor Market Board is charged with the administration of labor market policy, including placement services, rehabilitation, training, and counseling of workers in transition, and I

think has probably been a critical front-line player in the restructuring involved that we've heard about from Mr. Wallenberg.

Mr. Larsson began his career as a journalist, worked for several major Swedish daily newspapers, for the Swedish Broadcasting Corp. He also has been affiliated during his career with the Swedish metal-workers union, a backbone of the labor movement in a country with a large motor vehicles industry, an aircraft industry, metallurgical industry, and capital goods industries.

I might interject that I read somewhere I think in Mr. Larsson's paper that some 95 percent of the blue collar work force in Sweden is organized. That, I presume, means unionized. And that some 85 percent of the salaried employees likewise are organized in unions.

That does raise an interesting difference contrasted with the United States.

One of the problems in restructuring that we have here referred to by Professor Blanchard seems to be a substantial wage differential between wages in organized manufacturing sectors and wages in service industries to which some of the displaced workers in this economy have had to seek employment, a substantial wage differential which I suppose is smaller or does not exist in a highly centralized bargaining environment.

Mr. Larsson's career in the Government began with his appointment as secretary to the late Prime Minister Tage Erlander. He later served as Under Secretary of Labor and Employment in the mid-1970's and was appointed to his present position in 1983.

Discussing his remarks will be two distinguished American economists. Prof. Susan Houseman from the University of Maryland School of Public Affairs—Professor Houseman has done a lot of work on comparative employment and industrial policies in the United States and Europe, including work on the restructuring of the European and American steel industries, research begun as a graduate student at Harvard University for which she won the Welles Prize for the best dissertation in economics at Harvard.

Also contributing to the discussion will be Rudy Oswald, who is the Director of the AFL–CIO Department of Economic Research. Mr. Oswald is a distinguished economist. He's past President of the Industrial Relations Research Association, a scholarly association. He's on the board of directors of the National Bureau of Economic Research, which is the blue ribbon panel coordinating and contributing to economic research in the United States at the academic level.

And among his writings are an interesting-sounding article "Union Adaptation to Change in the Labor Force," published in the proceedings of the IRRA.

With that, let me come back to Mr. Larsson and turn the floor over to him. I'm going to try, as we're beginning a bit late, to confine our panel discussion to the allotted 50 minutes. So let me ask the speakers to try to remain within their time limits. Mr. Larsson.

## STATEMENT OF ALLAN LARSSON

Mr. LARSSON. Mr. Chairman, ladies and gentlemen, it's a great pleasure to have this opportunity to present Sweden's active labor

market policy. I do appreciate the interest that you are showing in what we are trying to do.

First, I would like to say that we have obtained many valuable ideas for our employment policy from the United States. One example is the regular labor market surveys that we carry out in order to get a clear picture of the employment situation. These surveys are of great importance both for the planning of our policies and for public debate.

I can also mention the use of computers in the job exchange where we learned a lot from the United States before starting our system in the 1970's.

Another example is the job club method that we started using during the 1980's in order to get people more active in looking for jobs with very good results.

These are some examples where we have had the privilege to draw on U.S. experience. We are very grateful for this and we will continue to look for new and creative ideas.

Mr. Wallenberg has described Sweden's effort to restructure its economy during the 1980's, the need to shift resources from domestic consumption into production investments and export, the necessity to restructure manufacturing industry in order to improve competitiveness. This means great changes in the production apparatus: mergers, closures of factories, layoffs. But it also offers the best longrun prospect of security—new jobs.

The problem is that the new jobs come at a later time, sometimes in a different place, and require new skills. So there is a real threat to security for the workers faced with the loss of jobs as a result of structural changes. There is, therefore, a strong demand from workers and their unions for security.

This poses the most crucial issue of economic and social policy: how to combine the worker's demand for security with the need for flexibility in production. This involves striking a balance between labor and capital, between society and business, between politics and markets.

It's clear to me that the demand of the individual for security and the need for flexibility in production, that they are not a zero-sum game—the one does not have to be sacrificed for the other. On the contrary—if we can balance these interests, they can reinforce each other.

This is where Sweden's active labor market policy comes in. As Professor Blanchard said, it plays a key role in combining flexibility with security. This policy, carried out in close cooperation between government, unions, and employers, is an instrument for striking the balance between labor and capital, between politics and markets.

Before describing the labor market policy, I will mention three features of Sweden's labor market that set the stage for it.

First, Sweden's employment is heavily dependent on the nation's export industry.

More than half the work force in Sweden's manufacturing industry produces goods for export and a large part of the rest produces, in competition with foreign producers, for domestic markets.

Second, Sweden's labor market is well organized. Both the employers and the workers are well organized and powerful. Business can talk with one voice and, therefore, it is strong.

The unions are strong thanks to their having a high membership. As Mr. Cox said, 95 percent of blue collar workers and 85 percent of salaried workers are organzied. This has given the unions a great deal of influence and a great deal of responsibility.

Third, Sweden has a strong commitment to full employment. The goal of full employment is work for everyone. This goal reflects not only the ambition to fight unemployment; it also reflects the will to provide an increased number of people—women, as well as men—with job opportunities. Such a goal has an important implication for the economic policy. Full employment requires high demand.

However, Sweden's experience shows that this is not possible only by means of general demand policy. Using general economic policy until full employment is achieved puts pressure on wages and salaries and generates inflation.

Therefore, it is necessary to combine general economic policy with selective labor market programs to avoid bottlenecks and direct demand to those who are unemployed.

These three factors, Sweden's dependence on the export markets, the well-organized labor market, and the strong commitment to full employment, create the political and economic environment for the labor market policy.

What, then, does Sweden's labor market policy really mean?

Basically, it is a choice of strategy. Changes caused by new technology, by international trade, and by other factors always include the risk that individuals lose their jobs and become unemployed.

Therefore, the government has to make an important choice of strategy. That choice can be expressed in two questions:

Will the market solve the problem and the government just pay handouts?

Do we need political measures to make the market operate so that unemployment can be reduced or prevented?

This is a political choice between a handout strategy and an employment strategy. Sweden gives priority to the employment strategy. This means that jobs, training, and other measures of vocational preparation have highest priority, while handouts—for example, unemployment benefits—are only regarded as the last resort.

Consequently, the active labor market policy focuses on the whole labor market. It consists of different means that will help to improve the function of the labor market.

The public employment service is the cornerstore; that is, matching supply and demand.

An efficient employment service is the best and the cheapest employment policy. The primary function of the employment service is to contribute to rapid and effective adaptation between labor supply and labor demand.

That means that the placement service must cover the whole market. It must serve both employers and jobseekers. It must serve both those who are unemployed and those who have a job, both jobseekers with a strong position and those with a weaker position.

The second element is human resource development programs, supply-side policies.

Many jobseekers can get a job through the placement service. But many others need a more advanced form of employment service. That goes for young people who need counseling, women entering or reentering the labor market, displaced workers who need training or retraining to find new employment, disabled workers who need both counseling, rehabilitaton, and retraining.

Our experience is that these supply-side measures are becoming more and more important. They help to stimulate labor supply, thereby avoiding bottlenecks in production.

I'm convinced that Sweden, to be competitive, must be a high-skill economy. That is something more than a high-tech economy. Sweden must use not only advanced technology, but also develop a high level of skill and competence in all trades and all sectors of the economy and a high degree of flexibility in work organization.

The third element in the active labor market policy is job development programs; that is, demand-side policies. For some jobseekers, neither the placement service, nor the human resource programs, are sufficient or adequate. Demand-side measures or job development programs are necessary. These demand-side measures are based on economic incentives to stimulate the demand for labor where and when it is necessary.

Incentives are used to get employers in their own interest to hire those who are unemployed.

That goes for teenagers, who are guaranteed at least a 4-hour-a-day job, for disabled workers, and for other jobseekers with a weak position in the labor market.

Most of these resources in the job development programs are used for disabled persons. Of all people in the job development programs, about 75 percent have one or more occupational handicaps.

Generally, those incentives are used to create an employment alternative instead of early retirement and other social programs.

These programs in various combinations are used in the day-to-day operations all over the country to improve the function of the market. The aim is to meet the aspirations of individuals for jobs and security, and to meet the needs of production for flexibility.

These programs play a central role when dramatic structural changes hit a region. Let me give you one example that is from the shipbuilding industry.

As Mr. Wallenberg said, Sweden was in the 1960's number two after Japan in shipbuilding. In the 1970's, the market changed and new countries moved into shipbuilding. Since then, Sweden has shut down its merchant shipbuilding industry. The two last shipyards, Kockums and Uddevalla, were closed in the middle of the 1980's. The town of Uddevalla has 45,000 inhabitants. The shipbuilding company was the dominant industrial employer, with 2,200 employees.

Great efforts were made to help the workers to find new jobs. The Government presented a vigorous program of investments in the town of Uddevalla. It made a deal with Volvo to establish a new car assembly plant and started massive labor market policy programs.

The labor market board established an employment office at the shipyard the year before the closing. More than 30 placement officers and counselors were serving the workers. Our ambition was to

find a satisfactory solution for every shipyard worker. Most of the workers have obtained new jobs directly or after employment training. Others are still in training for new skills. Some have started their own businesses and some of the employees have retired. New enterprises have been developed in the region.

The economic structure is now more healthy than in the beginning of the 1980's. Today, there are fewer people unemployed in Uddevalla than there were before the closure of the shipyard.

Let me add some words on what we have achieved in the field of employment in general.

During the 1960's and the 1970's, the portion of the population belonging to the labor force successively increased. Employment among men increased slowly, but employment among women rose steeply. Those trends have continued during the 1980's.

According to the regular labor force surveys, nearly 87 percent of the population between 20 and 64 belong to the labor force. The percentage of women employed in Sweden is higher than in any other OECD country. The labor market policy, the individual tax system and the program for day care services have proved effective. They have facilitated women finding, getting, and keeping employment.

Unemployment, which went up in the beginning of the 1980's, has been reduced every year since 1983. Last year, unemployment was down to 2 percent. Unemployment among teenagers is down to 3 to 4 percent.

Today, Sweden's economic situation is a good deal more encouraging than 4 or 5 years ago. That goes for employment, for the budget, and, to a certain degree, for the balance of payments. But the economy is by no means problem free.

The labor market is characterized by high demand and difficulties in getting skilled labor, especially in the manufacturing industry.

A downturn in the business cycle is expected during the coming year. This will affect the labor market. How soon the change will appear and how strong it will be remains to be seen.

The long-term prospect for the labor market is very much the same as for the United States. Teenagers will be fewer in the 1990's. The influx of young people to the labor market will diminish. The average age of the labor force will increase. Occupational and geographic mobility will decline.

Let me now make some final remarks.

First, Sweden's active labor market policy focuses on the whole labor market. It serves both the labor force and business. But the programs have a distributive function. Therefore, more service is given and more resources are allocated to those who need it most, such as the occupationally handicapped. The idea is to get the whole market to work in a better way in order to improve employment and reduce unemployment.

Second, to reach the goal of full employment, general economic policies are fundamental, but not sufficient. It is necessary that the labor market policy include selective measures, stimulating supply as well as developing demand.

I'm convinced that the supply-side measures, the human resource development programs, are becoming more and more important.

Facing the demographic situation of the 1990's, it's quite clear that education, training, and retraining of the work force will be of utmost importance for employment and growth.

Third, we regard an active labor market policy as a tool for international competitiveness. It enables us to restructure the economy by providing basic security for employment when job security is at stake. It is a way of meeting both the need for flexibility and the demand for security and pursuing a free trade policy.

To illustrate this, I would like to end by quoting a local union president who was asked about his attitude to new technology. A journalist asked him if he wished to have a veto over new technology. His answer was this: "No, I don't want a veto over new technology. It is not the new technology, but the old technology that is the threat to our jobs." Thank you, Mr. Chairman.

[The complete statement of Mr. Larsson follows:]

# FLEXIBILITY IN PRODUCTION, SECURITY FOR INDIVIDUALS

**Allan Larsson**
**Director General**
**Swedish National Labor Market Board**

## Flexibility and Security--Friends or Foes?

This paper is about Sweden's effort to restructure its economy during the 1980's, the role of the active labor market policy in this process and the effort to offer security for employment, when job security is at stake.

Let us start with Sweden's economic situation in the beginning of the 1980's:

-- a heavy deficit in the balance of payments;
-- a huge deficit in the Government budget;
-- high unemployment--by Swedish standards;
-- an urgent need to shift resources from domestic consumption into productive investments and export;
-- a necessity to restructure important parts of the manufacturing industry in order to improve competitiveness;

The necessity to restructure was not a new experience for Sweden. Because it is a small country, it has long been highly dependent on international trade to achieve a high standard of living. To do that, it has had to learn to live with continuous restructuring of its economy.

This means great changes in the production apparatus: mergers, closures of factories, layoffs. But it also offers the best long run prospect of security in the form of new jobs.

The problem is that the new jobs come at a later time, sometimes in a different place, and require new skills. So there is a real threat to security for the specific workers faced with the loss of jobs as a result of structural change. There is, therefore, a strong demand from workers and their unions for security.

This poses the most crucial issue of economic and social policy: how to combine the worker's demand for security with the need for flexibility in production. This involves striking a balance between labor and capital, between society and business, between politics and markets.

It is clear that the demand of the individual for security and the need for flexibility in production are not a zero-sum game--the one does not have to be sacrificed for the other.

On the contrary, if we can balance these interests, they can reinforce each other.

This is where Sweden's active labor market policy comes in: it plays a key role in combining flexibility with security. This policy, carried out in close cooperation between Government, unions and employers is an instrument for striking the balance between labor and capital, between politics and markets.

Before describing Sweden's labor market policy, I will mention three features of its labor market that set the stage for it.

Three Observations on Sweden's Labor Market

1. Sweden's employment is heavily dependent on the nation's export industry.

Sweden's dependence on international markets can be illustrated by the fact that one third of the country's total production, GNP, is sold on export markets in global competition.

More than half the work force in Sweden's manufacturing industry produces goods for export and a large part of the rest produces--in competition with foreign producers--for domestic markets.

This is a fact that business, unions and government have to take into consideration when making decisions on prices, wages and salaries and on economic policy.

During the second part of the 1970's Sweden forgot that fact and made some serious mistakes. As a consequence, the industry lost part of its international competitiveness.

In the beginning of the 1980's a new economic policy was developed. One part of this policy was the devaluation of the Swedish currency in order to give a new start to the industry.

2. Sweden's labor market is well organized.

Both the employers and the workers are well organized and powerful. Business can talk with one voice and therefore it is strong. Unions are strong thanks to their high membership. 95 percent of blue collar workers and 85 percent of salaried workers are organized. This has given the unions a great deal of influence and a great deal of responsibility.

The unions are not only organizations for struggle, but social builders as well. Generally speaking, they can not confine themselves to the short-term interest of their own groups: instead they have to view their own role in a wider and more long-term context.

As a contribution to the reconstruction of Sweden's economy, the unions accepted wage restraints with lower wage increases, in order to get improvements in real earnings later.

3. Sweden has a strong commitment to full employment.

Full employment means economic development leading to a low level of unemployment.

In various political documents the expression "work for everyone" has been used since the mid-1970's to express the goal of employment policy. This reflects that a low level of unemployment is not a sufficient description of the goal of an ambitious employment policy; a low level of unemployment can be

achieved by reducing the supply of labor, for example letting women return from the labor market to housework.

"Work for everyone" reflects the ambition to provide an increased number of people--women as well as men--with the opportunity to participate in the labor market--the real base for equal opportunity.

Economic policy in a broad sense must create the scope and incentives for a development in which demand for labor can keep pace with the supply of labor and in which other goals of economic policy can be realized.

Full employment requires full growth. However, Sweden's experience shows that this is not possible only by means of general demand policy. Using general economic policy until full employment is achieved puts pressure on wages and salaries and generates inflation.

Therefore, it is necessary to combine general economic policy with selective market programs so that bottlenecks can be avoided and demand can be directed to those who are unemployed.

In the beginning of the 1980's unemployment went up from 1.5 percent to 3-4 percent. For teenagers it climbed to 10-12 percent. In the new economic policy labor market, policy has been directed towards reducing unemployment, especially among the youth, and helping industry to get skilled labor.

A Political Crossroads

What, then, does Sweden's labor market policy really mean?

Basically, it is a choice of strategy. Changes caused by new technology, international trade and by other factors always include the risk that individuals lose their jobs and become unemployed. Therefore, the government has to make an important choice of strategy in the labor market.

That choice can be expressed in two questions:

-- Will the market solve the problem and the government just pay handouts?

-- Or do we need political measures to make the market operate so that unemployment can be reduced or prevented?

This is a choice between a handout strategy and an employment strategy. Sweden has for many years given priority to the employment strategy. This means that jobs, training and other measures of vocational preparation have highest priority, while handouts--for example unemployment benefits--are only regarded as the last resort.

Six to seven percent of the Government budget, which corresponds to 2.5 percent of GNP, is utilized for the labor market policy.

Total expenditures for labor market policy are nearly 5 billion U.S. dollars (on a labor force of 4.4 million). Almost 70 percent of the budget goes to active programs, while 30 percent goes to unemployment benefits (most Western European countries do the reverse, spending 70-80 percent on unemployment benefits).

There are both economic and social reasons for making such an effort. Work is an important part of a good society: everybody who is willing and able to work should be given the chance to do so.

Unemployment is a waste of resources, and most active measures already pay off in the short run in terms of government finances and are highly profitable in the longer run.

The Active Labor Market Policy

Consequently, the active labor market policy focuses on the whole labor market. It consists of different means that will help to improve the function of the labor market.

1. The public employment service is the cornerstone (matching supply and demand).

An efficient employment service is the best and the cheapest employment policy. The primary function of the employment service is to contribute to a rapid and effective adaptation between labor supply and labor demand.

The main objective is to get job openings filled as soon as possible and to help job seekers find a job. Therefore, the employment service must be able to give job seekers information on all vacancies, and give employers a chance to reach the job seekers.

That means that the placement service must cover the whole market, serving both employers and job seekers, both those who are unemployed and those who have a job but are looking for new opportunities, both job seekers with a strong position and those with a weaker position.

Sweden's public employment service covers 90 percent of all vacancies that are published and 60 percent of all job openings. More than 80 percent of the unemployed and more than 30 percent of other job seekers are registered at the employment offices.

The officers in the job exchange work in close contact with the enterprises as well as with the job seekers. A nationwide computer-based information system has been developed. In any employment office, job seekers can get information on vacancies all over the country.

About 50 percent of all reported vacancies are filled by job seekers served by the public employment service.

2. The second element is human resource development programs (supply side policies).

Many job seekers can get a job through the placement service. But many others need a more advanced form of employment service. That goes for young people who need counselling, women entering and reentering the labor market, displaced workers who need training or retraining to find new employment, disabled workers who need both counselling, rehabilitation and retraining.

In an economy in rapid change, these supply side measures are becoming more and more important. They help individuals to improve their skills and abilities. They help to stimulate labor supply in general as well as in various parts of the labor market, thereby avoiding bottlenecks in production.

To be competitive, Sweden must be a high skill economy. That is something more than a high tech economy. There is a conviction that Sweden must use not only advanced technology, but also develop a high level of skill and competence in all trades and all sectors of the economy--and a high degree of flexibility in work organization.

The education system, personnel training and employment training, as well as learning by doing, are all important elements in the development of a high skill society.

The importance of the employment training can be illustrated by the fact that an increasing portion of vacancies are reserved for persons with education and/or experience. In 1980, employers asked for education and/or experience in 55 percent of the vacancies. In 1987 that figure was 78 percent.

Employment training takes an increasing part of the labor market budget; now more than a quarter of the budget.

The average number of persons engaged in employment training and retraining at a given time is about 40,000 or about one percent of the labor force. During a year about 130,000 persons, or almost three percent of the labor force, are training for new jobs and better opportunities.

This is an important way of bringing people who are unemployed or at risk of being unemployed, back to work. According to the regular follow-up study six months after the training, 70 percent of the participants are in gainful employment.

The human resource programs, especially the employment training program, continue to be an important bridge to employment for women entering or reentering the labor market.

3. The third element is job development programs (demand side policies).

For some job seekers, neither the placement service, nor the human resource programs are sufficient or adequate. Demand side measures, or job development programs, are necessary.

These demand side measures are based on economic incentives to stimulate the demand for labor where and when it is necessary.

These demand side measures are based on economic incentives to stimulate the demand for labor where and when it is necessary. Incentives are used to get employers in their own interest to hire those who are unemployed.

That goes for teenagers, who are guaranteed at least a 4 hours a day job, for disabled workers, and for other job seekers with a weak position in the labor market.

Most of these resources are used for disabled persons. Of all people in the job development programs, about 75 percent have one or more occupational handicaps. Generally, those incentives are used to create an employment alternative instead of early retirement and other social programs.

Along with these labor market policy programs there are also regional policies to stimulate investments and employment in depressed areas.

Labor Market Policy in Practice

These programs in various combinations are used in the day-to-day operations all over the country to improve the function of the market. The aim is to meet the aspirations of individuals for jobs and security, and to meet the needs of production for flexibility.

These programs play a central role when structural changes hit a region. One example is from the shipbuilding industry.

In the 1960's Sweden was number two after Japan in shipbuilding. In the 1970's the market changed and new countries moved into shipbuilding. Since then Sweden has shut down its merchant shipbuilding industry.

The two last shipyards, Kockums and Uddevalla, were closed in the middle of the 80's. The town of Uddevalla had 45,000 inhabitants, the shipbuilding company was the dominant industrial employer with 2,200 employees.

Great efforts were made to help the workers to find new jobs. The Government presented a vigorous program of investments in the town of Uddevalla, made a deal with Volvo to establish a new automobile plant in the town and started massive labor market policy programs.

An employment office was established at the shipyard a year before the closure. More than 30 placement officers and counsellors were serving the workers. The ambition of the staff was to find a satisfactory solution for every shipyard worker.

Most of the workers have got new jobs, directly or after employment training, others are still in training for new skills and professions, some have started their own businesses and some of the employees have retired. New enterprises have been developed in the region.

The economic structure is now more healthy than in the beginning of the 1980's. Today, there are fewer people unemployed in Uddevalla than there were before the shutdown of the shipyard.

Government, Unions and Employers in Cooperation

The labor market policy in Sweden is carried out through collaboration between the Government, employers and unions.

The Labor Market Administration is run--at national level (AMS) as well as at regional and at local level--by bodies in which employers' and union representatives participate.

There are good reasons for this close cooperation. One reason is that decisions will be improved when people in the administration have to discuss their plans and proposals with representatives for employers and workers. Another reason is that the implementation of the policies on the local market will be furthered by the support from the two sides in industry.

Renewal and Efficiency also in the Public Sector

The Government's effort to restructure the economy includes not only the industry but also the public sector.

As part of this effort, initiatives have been taken in the Labor Market Administration to transform the organization to be less bureaucratic and more customer-oriented.

The transformation is going on in three areas:

1. Change from management by regulations to management by objectives.

The rule book has been cut by 50 percent. More attention is given to targets and goals. More questions are asked on achievements. And more time is spent on follow-up than before.

2. Redistribution of resources from in-house work to customer oriented services.

The staff in the central headquarters has been cut by more than 20 percent and now the regional administration is being cut by more than 10 percent. This has given resources to strengthen the local employment offices and to improve contacts with the customers, both the job seekers and the employers.

3. Development of the quality of services to the needs of the customers.

A nationwide computer-based information service on all vacancies and job seekers has been developed. Vacancy corners, i.e. drop-in employment offices with placement service are established in the cities, job fairs are arranged, where companies can present their activities for job seekers, the concept of job clubs is well developed, one of the valuable ideas we have got from the U.S. A new flexible and business-oriented organization for employment training (AMU) is established, just to give a few examples.

Achievements in Employment...

During the 1960's and the 1970's, the portion of the population belonging to the labor force successively increased. Employment among men increased slowly, but employment among women rose steeply.

Those trends have continued during the 1980's.

According to the regular labor force surveys, 86.9 percent of the population between 20 and 64 belonged to the labor force in 1987. The figures for men were 89.6 percent and for women 84.1 percent. In the middle of the 1990's there will be as many female workers as male workers in the labor force.

The percentage of women employed in Sweden is higher than in any other OECD country. The labor market policy, the individual tax system and the program for day care services have proved effective. They have facilitated women finding, getting and keeping employment.

Unemployment, which went up in the beginning of the 1980´s has been reduced every year since 1983. Last year unemployment was 1.9 percent. Unemployment among teenagers is down to 3-4 percent.

This improvement has been achieved during a period of extensive structural changes in industry, a structural transformation of shipbuilding, steel, mining and other parts of industry.

Occupational and geographic mobility are important factors in this transformation.

New technology is introduced both in the manufacturing industry and in the service sector--it is with union support. New technology is not regarded as a threat to employment--it is the old technology which is the threat.

. . . and New Challenges

Today, Sweden´s economic situation is a good deal more encouraging than four or five years ago. That goes for employment, for the budget and for the balance of payments. But the economy is by no means problem-free.

Last year, Sweden had a considerable increase in private consumption, creating problems in maintaining the balance in the country´s international trade.

The labor market is characterized by high demand and difficulties in getting skilled labor, especially in the manufacturing industry.

A downturn in the business cycle is expected during the coming year. This will have effects in the labor market. How soon the change will appear and how strong it will be, remains to be seen. It depends on international economic developments.

But it also depends on how Sweden´s industry can maintain its competitiveness. The ongoing negotiations for new collective agreements will play a decisive role for the strength of the economy.

The long term prospects for the labor market are very much the same as for the U.S.: teenagers will be fewer in the 1990´s, the influx of young people to the labor market will diminish, the average age of the labor force will increase, occupational and geographic mobility will decline. Many important industries will find it increasingly difficult to fill vacancies with young people. That goes for the manufacturing industry, but also for services, such as health care.

Some Concluding Remarks

Firstly, Sweden´s active labor market policy focuses on the whole labor market, serving both the labor force and the enterprises, both job seekers with a weak position in the labor market and job seekers with a strong position. At

the same time, it has a distributive function. More service is given and more resources are allocated to those who need it best, for example the occupationally handicapped.

The idea is to get the whole market to work in a better way in order to improve employment and reduce unemployment.

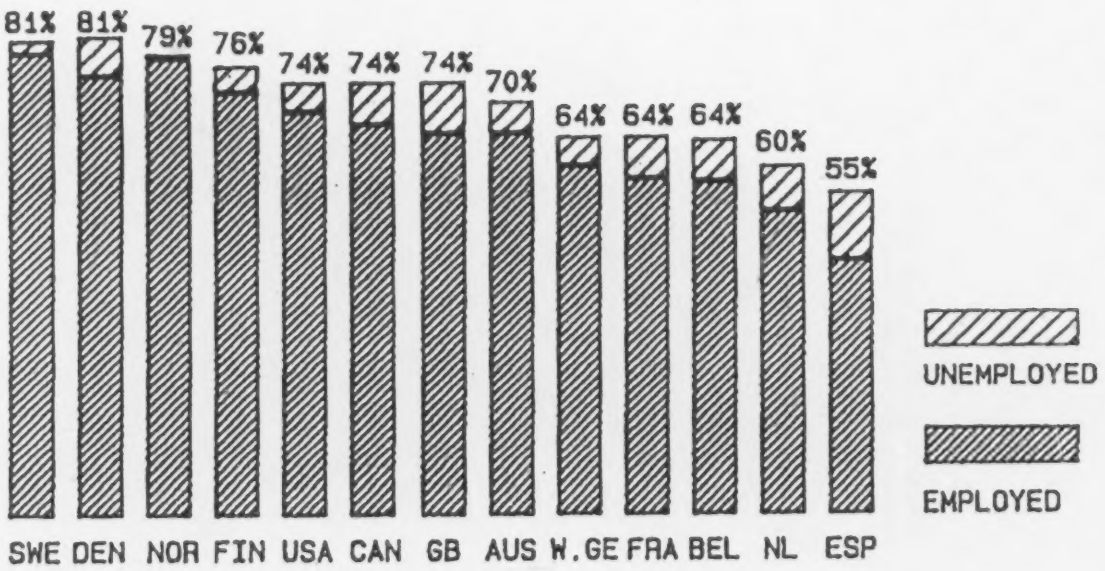
Secondly, to reach the goal of full employment, general economic policies are fundamental but not sufficient. It is necessary that labor market policy includes selective measures, stimulating supply as well as developing demand.

In a rapidly changing economy the supply side measures, the human resource development programs, are becoming more and more important. Facing the demographic situation of the 1990's, it is quite clear that education, training and retraining of the work force will be of utmost importance for employment and growth.

Thirdly, an active labor market policy is a tool for international competitiveness. It enables the restructuring of the economy by providing basic employment security for workers. It is a way of meeting both the need for flexibility and the demand for security.

Sweden's active labor market policy is not cheap. But there is a broad consensus that the benefits are worth the cost. And all experience shows that a handout strategy of West European style is more expensive than an employment strategy.

# LABOUR FORCE IN VARIOUS COUNTRIES 1986 OECD



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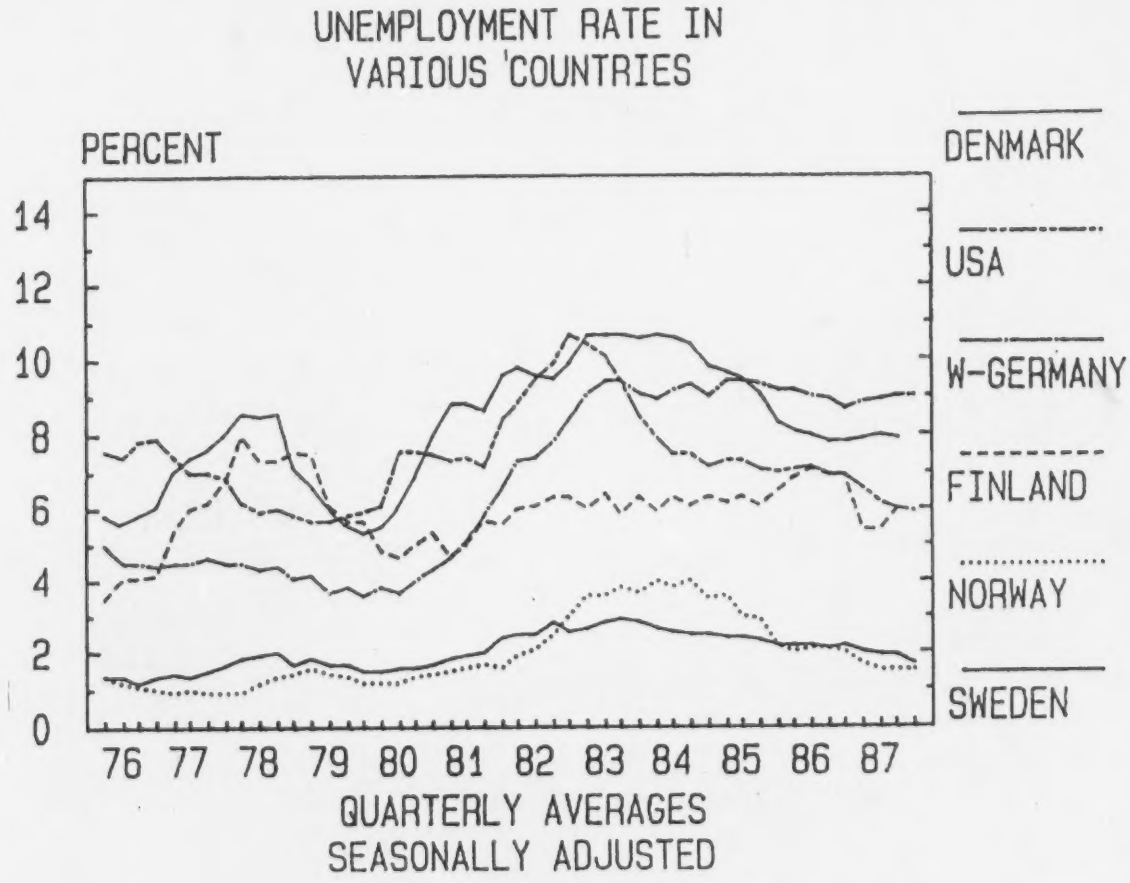
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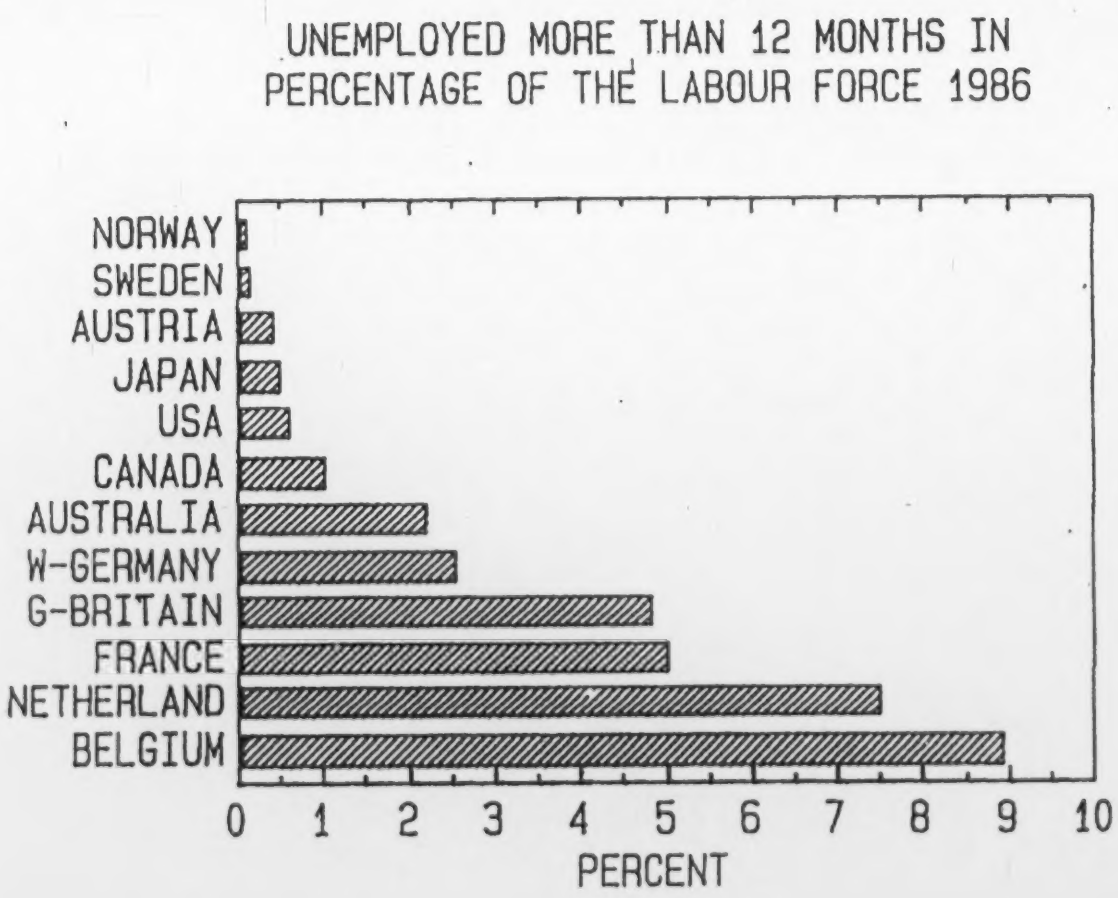
UNEMPLOYED MORE THAN 12 MONTHS IN
PERCENTAGE OF THE LABOUR FORCE 1986
NORWAY
SWEDEN
AUSTRIA
JAPAN
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CANADA
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G-BRITAIN
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PERCENT

Mr. Cox. Thank you very much, Mr. Larsson, for some very interesting and provocative remarks which stimulate a good many questions in my mind. But I'm not a discussant. So I'm going to turn the microphone over to Mr. Rudy Oswald from the AFL–CIO, who is our first discussant.

## STATEMENT OF RUDY OSWALD

Mr. OSWALD. I think I'd like to pick up maybe on the last comment by Mr. Larsson in terms of the comment of the local union representative saying that the threat is not new technology, but old technology.

In one sense, I would say that has been the central focus of the negotiations of the steelworkers and the steel industry in this country in their recent negotiations. But I think the other background that Mr. Larsson talked about was the basic element of job security which has become central in terms of negotiations in this country and it is that job security that doesn't exist in the United States.

Partially, I think Mr. Cox mentioned it, Mr. Larsson mentioned it in terms of the organizational trade union movement in this country. I think it has been held back by employer opposition, by the nonacceptance of unions by that part of our society which makes it very difficult to establish the type of tripartite relationship that was described earlier. Mr. Cox talked about the wage differentials and, yes, they are much greater here. Ten dollars in manufacturing is certainly not very high, much lower in real terms than in many European countries.

But in services, the average earnings are only $8.70 an hour, in retail trade, $6.18.

Or you look at what has happened in this country to the minimum wage, which hasn't moved in the last 7 years, when other workers have received wage increases averaging at least $2 an hour, meaning that they fall further and further behind.

What I'd like to touch on, I think, the central focus of Mr. Larsson's presentation, and that was the commitment to full employment.

We thought a decade ago with the passage of the Humphrey-Hawkins Act, that this country had finally put that behind us and that we had set a new direction in this country, a new commitment, only to find that in the last decade, that commitment has been observed totally in the breech—no interest, no concern in terms of that notion of making a central element of national economic policy to bring unemployment down to full 4 percent within 5 years as an interim goal and then move further.

But I think that there is one other element that we can learn heavily from the Swedish experience, and that is that you can bring unemployment well below even 4 percent with a combination of macroeconomic and microeconomic policies, without having inflation.

So that the notion that low unemployment causes inflation should be put to rest by the experience of the Swedes in terms of achieving low unemployment, as well as low inflation.

I think there's one other aspect in terms of the experience that we've heard this morning. That is, in order to have an effective

labor market policy, one needs to put governmental resources behind those policies in order to make them work.

We've heard this morning that they spent $5 billion. And we in the United States, with a labor market almost 20 times as large, spend that same $5 billion and say why doesn't it work?

The administration that came into office in 1981 criticized the previous administration because not all unemployment problems had been resolved, when they spent $10, $20, or $30 billion on such programs—a drop in the bucket compared to the programs that we see here.

I was interested to hear Mr. Larsson say that the cornerstone of the programs in Sweden to make their labor market programs work is a national employment service which serves all workers. It's time that the United States brought the employment service that was put into effect in the 1930's into a national employment service that serves all workers, where all employers must register their openings with that employment service so that workers can go there for the full range of job opportunities that exist in our society.

Mr. Larsson also did one other thing for me today. He gave supply side a good name. Supply side for me in the last 8 years has been a dirty word. But not in terms of the way that Mr. Larsson used supply side. He talked about supply side as using the resources of government to train and to counsel those workers who needed such training and counseling.

He talked of the needs of young workers, of women, of displaced workers, disabled workers, and what they do.

We have a program theoretically on the books that reaches 5 percent of the unemployed in terms of providing any help, that skims the best among the group that is to be aided.

I think that the notion that our Job Partnership Training Act is somehow meeting the needs of the unemployed is put to a lie in terms of the problems of black youth in our society who still suffer 30 percent unemployment. It's put to a lie in terms of the problems of the disabled and the displaced workers.

And I think there's one other aspect that has been put outside of our current labor market policies, and that is the demand side that Mr. Larsson talked about.

There was a program in the last administration that did provide some small aspects of job demand in terms of public service employment programs for those who could not find work elsewhere. That was the first thing eliminated by this administration and, in that sense, the first element of an elimination on the demand side of what government can do in terms of a positive labor market policy.

What I'd like to say is that this Congress, in its last year, has some specific opportunities to deal with some adjustments in our labor market programs that are far from the total answer, but I think are important steps that often aren't recognized and addressed.

In the trade bill, there are four very important labor market elements in it. One is a basic education program to help improve our educational system for competitiveness. Second, there's a policy within that bill to deal with plant closing notifications, so that one

can do the sorts of programs that we've heard about this morning for the adjustments of the shipyard workers who were helped in terms of finding new jobs.

Third, within that bill, there's a worker adjustment program that would put a billion dollars nearly, better than nothing, in terms of some training funds for worker adjustment programs. And it would also provide some improvement in the trade adjustment program that is going on.

I'd just like to touch on three other bills that I think are crucial. One is an updating of the minimum wage law, to bring that up to date. Second, a move to provide family leave so that workers are not unemployed when they have family responsibilities, when mothers have children, when fathers must stay home with an ill child or parent, elements that are taken for granted in Sweden. Last, minimum health benefits for working people.

I think that what Mr. Larsson and Mr. Wallenberg have given us is a challenge for our labor markets to be brought up to date to meet the commitment of full employment of a decade ago of the Humphrey-Hawkins Act, and to really provide workers with job security that's needed to move the general economy further ahead. Thank you.

[The complete statement of Mr. Oswald follows:]

COMMENTARY

Rudy Oswald
Director of Economic Research
AFL-CIO

I appreciate this opportunity to present an AFL-CIO perspective on the Swedish experience with industrial restructuring and labor market policy. I might summarize my comments by stating that my view of the Swedish approach is "I wish we had it here" and that we in the United States can learn a lot from the Swedish experience, from Sweden's active labor market policy, from Sweden's commitment to full employment, from Sweden's commitment to the democratic process, including tripartite labor-business-government cooperation.

The United States made a commitment to full employment in the Employment Act of 1946 and again in the Humphrey-Hawkins Full Employment and Balanced Economic Growth Act of 1978. So it would appear on the surface that Sweden and America are on the same track with respect to full employment.

But that is not the case. In Sweden full employment is a primary goal of economic policy with broad support among all political and economic groups. General economic policy and selective labor market policies are aimed at achieving work for everyone--and this goal is achieved so successfully that unemployment--around 2 percent--is much, much lower than it is in the United States.

In the United States we have the lofty mandate of the Humphrey-Hawkins law, with an interim target of 4 percent unemployment, but unfortunately there is a lack of political commitment to full employment, a lack of political will to achieve full employment, and a failure to fund worthy employment and training programs at levels in line with needs.

The now discredited theory of a trade-off between unemployment and inflation has too often been a barrier to effective action on employment-expanding and job-creation policies in the United States. Therefore, it is important to note that the recent report of the President's Council of Economic Advisers takes a new and constructive voice on the trade-off issue.

"Recent data provide little evidence of a trade-off between inflation and unemployment," the report declares (page 83).

"Evidence concerning a possible relationship between inflation and unemployment suggests that the U.S. economy can reduce unemployment rates further without suffering from accelerating inflation. Perhaps, as recent experience appears to show, there is no meaningful trade-off."

I am delighted to see these remarks in the report of the Council of Economic Advisers. And I hope they will help lay to rest in the coffin where it belongs the mistaken concept of a "natural rate of unemployment." The active labor market policy of Sweden proves that the so-called "natural rate of unemployment" is a slogan without substance. If you have the political will to expand job opportunities and to reduce unemployment, you can do so without

inflation if you adopt the right combination of national economic policies and selective labor market policies.

America's labor unions recognize the realities of changing international competition, the realities of changing technology and changing industrial structure, and the realities of both the positive and negative effects resulting from economic change. We want change and progress to continue, but we want to maximize the positive and minimize the negative effects on the workers we represent.

That is why we seek trade policies which promote a fair trading environment that supports an advanced and diversified economy, promoting full employment and rising living standards.

And that is why we seek a comprehensive national industrial policy involving labor, business, and government representatives in a tripartite effort to modernize, revitalize, and enhance the competitiveness of the American economy. This is an approach in which Sweden has done very well.

Such a national industrial policy should provide a foundation for a long-overdue full employment policy which expands economic opportunity for all Americans. It would build upon an economic and social contract with the firms benefitting from industrial policy assistance, a social contract which includes company commitments to respect workers' rights and to meet equal employment opportunity, occupational safety and health, and environment standards. It would set a priority program of public investment in our deteriorating infrastructure. And it would provide a framework for coordinating tax, trade, interest rate, job training and job creation and other policies which promote competitiveness, economic progress and rising living standards.

In developing a national industrial policy for the United States with labor-business-government cooperation we can learn a great deal from the Swedish experience with labor-business-government cooperation and from Sweden's active labor market policy. An active labor market policy must be an important and essential component of national industrial policy in the United States. But we are spending only $5 billion from the federal budget on labor market programs for a U.S. labor force of over 120 million workers while Sweden is spending the same amount for a labor force of less than 5 million workers.

Employment and training in the United States must be vastly expanded and strengthened. Such programs include public jobs where private jobs are insufficient, reductions in worktime, anti-discrimination protections, expanded job placement, education and training programs, effective protection for workers and communities from the adverse effects of plant closings and mass layoffs, a minimum wage sufficient to maintain a decent standard of living, effectively enforce occupational health and safety protections, and a strengthened unemployment insurance system.

America's school system has a basic responsibility in preparing young people for the world of work, but the school system must be supplemented by an effective system for training and retraining.

All workers must have opportunities for training and education to get jobs, to keep jobs, and to get better jobs. Human resource and productivity improvement must be achieved through better education, basic skills

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remediation, training, retraining, upgrading, and opportunities for upward mobility for all workers, both employed and unemployed.

Trade unions have important responsibilities for supporting, protecting, and promoting training and education programs for their members and for potential members. Employers and local, state, and federal government agencies also have basic responsibilities for supporting, protecting and promoting training and education opportunities for working people. Adequate funding with more federal support for these programs is essential.

Private and public sector cooperation in designing and implementing training programs is desirable and necessary, and labor organizations must have an equal voice with business in such cooperation. Unions must have an opportunity to review and comment on all training programs before decisions are made on which projects will be funded. I am impressed by the key role of Swedish unions in Sweden's system of skill training.

Apprenticeship with its combination of on-the-job training and formal instruction must be preserved and strengthened and extended to new developing occupations.

Trade Adjustment Assistance and other effective national training and assistance programs, including job corps and other successful employment and training and worker assistance programs, should be retained and strengthened to help prepare displaced workers and young people for jobs.

Training allowances and income support should be available for workers in training programs.

Labor Market Institutions

Sweden's experience demonstrates that efficient labor market institutions can improve the matching of workers and jobs. In this process, labor unions have an important role that must be maintained and expanded. But the present federal-state Employment Service system has a key role.

The U.S. Employment Service must become the recognized, accepted, adequately financed source of free, employment-related services for all workers who need jobs and for all employers who need workers. Sweden's public labor exchange sets us a good example.

The concept of a nation-wide, free, public labor exchange is embodied in less than perfect form in the present federal-state Employment Service system. That is why we criticize the Employment Service even as we support its continued existence and as we urge more adequate funds and more effective focus for its array of services.

We want the Employment Service to move onward and upward in its scope of services--to stop its focus on low wage jobs at the bottom of the job ladder and to start serving all job-seekers as they do in Sweden.

We urge action to require all employers--except where there are established referral systems--to list job vacancies with the Employment Service

so that the U.S.E.S' free, public labor exchange purpose will be better achieved. This would open up a much wider array of jobs to the nation's job-seekers.

At present, mandatory listing of job vacancies is required of employers who have federal contracts or subcontracts of $10,000 or more. We believe this requirement--now largely ignored--should be universalized and enforced.

Such universal mandatory listing would greatly improve the operation of the Employment Service. It does not mean mandatory hiring. An employer could still advertise or use private employment agencies. But the Employment Service would have a much better sense of what is actually going on in the local labor market--and the Employment Service might get better attention and respect from job-seeking workers and from employers seeking higher-skill, higher-pay workers.

It is important to recognize the interstate and regional and national responsibilities of the Employment Service. A truly national labor exchange must be capable of operating across the boundaries of regions and states as well as local communities.

Even within states there is a tendency for local Employment Service offices to view their activities in terms of local boundaries and local communities when, in fact, more and more workers travel far beyond these boundaries and far away from their local communities of residence for job purposes. I am impressed by the role of the National Labor Market Administration in Sweden, a role much broader than our Employment Service.

Job development and job placement are essential public labor market exchange services, and we want the Employment Service offices to keep these functions, but they are not the only services which should be available through Employment Service offices.

We want the Employment Service offices to continue to perform a range of employment-related services. For example, basic functions of the Employment Service should include:

o Labor exchange services and related activities--as performed in Sweden--such as registering all applicants and unemployment insurance (UI) claimants, entering applicants in job banks, making referrals to employers with known job vacancies, counseling and making referrals to training and/or supportive services, testing skills, establishing job seekers' clubs, and providing workshops for job employability.

o Job search and work test programs for UI and, as appropriate, for other programs requiring job search as a condition for eligibility.

o Intensive programs and services including but not limited to outreach, orientation to labor market needs, self-help, follow-up counseling, and career guidance for workers who are difficult to place or who face particular disadvantages.

o Employer services including but not limited to listing jobs, screening applicants, providing information about affirmative action, and giving aid in

the development of training programs and in the use of labor market information.

o Labor market information designed to help individual job seekers and employers on local available job markets and to facilitate area and national labor market analysis.

We expect a lot from the Employment Service but the nation has never provided the resources needed to perform all the jobs we load on the U.S.E.S. offices. At a minimum there should be a substantial and continuing increase in U.S.E.S. staffing up to a level of 50,000 positions--far above the present 23,000 level.

We believe public labor exchange services should be available to the entire work force as they are in Sweden. As a practical matter, services here will be focused on the unemployed. Thus, if there is a plant shutdown in an area, it is logical and reasonable for the local Employment Service office to give immediate and concentrated attention to the large group of workers thrown out on the street.

We recognize that federalization of the U.S. Employment Service is not an immediate prospect and therefore, for the immediate future, we call for a continuation of the present federal-state system as modified by the Job Training Partnership Act of (JTPA) 1982.

However, we insist on the long-run need to federalize the Employment Service so that it can deal more effectively with employment and unemployment problems which are national or regional or interstate in scope. For example, job-seeking unemployed workers from Detroit swell the ranks of the jobless and raise unemployment rates in Texas.

We are very much concerned that this Administration's excessive eagerness to defederalize, to decentralize, and to privatize will seriously diminish and weaken the effectiveness of the Employment Service.

We recognize the very limited achievements of the business-dominated JTPA Private Industry Council system. These very limited achievements reflect a process of "creaming" those workers who need the least training and assistance to bring them to a stage where they meet specific employer needs. By contrast, the Swedish Labor Market Administration serves both disadvantaged workers and experienced skilled workers.

JTPA is training-oriented--but the Employment Service is job-vacancy, job-development, and job-placement-oriented. The two systems should work together.

But the JTPA system simply scratches the surface. Its funding is totally inadequate. It meets less than 5 percent of the total need for employment-related services. There is no way the JTPA-PIC system can replace or take over the functions of the U.S. Employment Service--nor should it. The two programs are designed for two related but distinct purposes.

We recognize the need for co-ordination of the various labor market service deliverers in the states and local communities, and we want efficiency and economy in delivery of these services.

Employment and training and labor market services and vocational education are inter-related national problems requiring national support and national action as well as state and local support and action.

Under JTPA,many responsibilities formerly carried out by the federal government were transferred to state and local governments. Coordination of JTPA, Employment Service; and state and local educational activities is supposed to be achieved through the State Job Training Coordinating Councils and the Private Industry Councils. Indeed, the Vocational Education Act of 1984 requires coordination between vocational education and JTPA programs. Coordination is written into the laws relating to the Employment Service offices, job training, and vocational education.

The AFL-CIO appreciates the many constructive activities of both the Employment Service and the JTPA systems. These systems and the people who work within these systems do a lot of good work within some very severe institutional and financial constraints.

But we are not 100 percent happy about the way that the Employment Service and JTPA and vocational education are now operating. We believe all unemployed workers should have more and better opportunities through their local U.S. Employment Service office for guidance and counseling, for evaluation and referral to appropriate employment-related services, including effective job placement assistance.

Sweden has set us an excellent example with its tripartite labor-management-government cooperation in industrial restructuring, in pursuing full-employment-oriented national economic policies and in operating a successful active labor market policy. Policy-makers and program administrators in the United States can learn and profit from Sweden's experience.

The U.S. Congress now has a pending number of legislative proposals which would improve the operation of labor markets.

In the trade bill is a $980 million worker readjustment program to help displaced workers. Also in the Senate-passed trade bill is a proposal to require employers to give advance notice of plant closings and mass layoffs. Such advance notice greatly improves opportunities for successful adjustment by workers and affected communities.

Action by Congress to improve the minimum wage will greatly improve the lot of the working poor.

With more and more two-earner families, the need for child care facilities and the need for parental leave are becoming increasingly urgent. Congress should act this year on legislation to make sure that workers are able to take unpaid medical and family leave.

Congress should also act this year on minimum health benefits for working people. All of these proposals will improve the operation of labor markets and raise the quality of American family life.

Sweden has set us an excellent example with its social legislation. I urge the U.S. Congress to profit from Sweden's experience.

Mr. Cox. Prof. Susan N. Houseman of the University of Maryland.

## STATEMENT OF SUSAN N. HOUSEMAN

Ms. HOUSEMAN. Thank you. Mr. Chairman, and ladies and gentlemen, I appreciate the opportunity to comment on Mr. Larsson's excellent discussion of Swedish active labor market policies and to discuss what lessons Sweden's policies might have for the United States.

The Swedish economy, much like the United States economy, underwent substantial restructuring in the 1970's and 1980's, as a consequence of severe macroeconomic recessions and trade pressures.

However, Sweden, in contrast to the United States, restructured with only modest increases in unemployment. During this period, Swedish unemployment remained, for the most part below 3 percent, while unemployment in the United States and in much of Europe soared.

Swedish and United States labor market policies in turn have been radically different, both in terms of the resources devoted to public programs, as Mr. Oswald has already noted, and in terms of the orientation of those programs.

It's difficult and potentially misleading, however, to compare Swedish and United States labor market experiences and to draw inferences about the effectiveness of their labor market policies without taking into account other key differences in their economies—their size, macroeconomic policies, dependence on foreign trade, demographic trends, to name a few which have been noted by other speakers.

Nevertheless, a recent U.S. task force concluded that U.S. labor market policies were inadequate to deal with the massive dislocation resulting from restructuring. As a result, the United States has implemented—and here I'm going to sound a somewhat more optimistic note that Mr. Oswald—or at least has proposed changes to its labor market policies that in many respects bring it closer to the Swedish model.

Mr. Larsson outlined three components of Swedish active labor market policy—essentially, job placement, training, and public sector employment. These components also have been a part of American labor policy. In fact, early labor market programs in the United States were modeled on Swedish policies that addressed various forms of structural unemployment.

The United States has a job placement service somewhat analogous to Sweden's, although it plays a comparatively minor role in job matching. Unlike in Sweden, in the United States placement services are provided still primarily by private agencies.

The priority given to training and public sector employment programs has changed over time in the United States. In the mid-1960's, U.S. labor market policies emphasized training, targeting groups that suffered above-average poverty or unemployment.

During the late 1960's and 1970's, emphasis shifted from training programs to a variety of other approaches, including public sector employment and hiring subsidies for private sector firms.

Our experiments with public sector employment were widely held as unsuccessful, and in the 1980's, U.S. labor policy has refocused on training. The Job Training Partnership Act and the Trade Adjustment Assistance Act are the major vehicles currently for training assistance.

Apart from differences in operation and emphasis of individual program components, there are fundamental differences in the overall orientation of labor market policy in the two countries. First, as Mr. Oswald has already noted, the relative resources devoted to labor programs are far greater in Sweden than in the United States. Spending on labor market policies account for about 7 percent of government expenditures representing almost 3 percent of gross national product in Sweden. Behind these figures is Sweden's firm commitment to full employment.

Some would argue that Sweden has spent too much on these programs and that they serve to disguise unemployment. For most of the 1970's and 1980's, and this has already been discussed, the number of people in labor market programs has exceeded the number officially unemployed.

Yet, in the United States, the consensus is that we spend too little on labor market programs. In December 1986, a special Department of Labor Task Force composed of business, labor, and government representatives issued policy recommendations to address the problem of worker dislocation in the United States. Based on findings that millions of workers had permanently lost their jobs in recent years, that these workers typically experience long spells of unemployment—on average, about 6 months—and that a substantial proportion experience large earnings losses, the task force recommended a package of new programs targeting dislocated workers. These proposals are embodied in labor and trade legislation currently pending in Congress. Mr. Oswald has already discussed many components of these. I won't repeat them. But approval would involve a substantial commitment of resources, much of them for retraining.

A second fundamental difference between Swedish and U.S. labor policies concerns the process by which they are formulated and implemented. In particular, the extensive coordination between labor, management, and government in Sweden is largely absent in the United States. By Swedish law, employers must notify the regional labor office of possible layoffs. Employers must also notify and negotiate with unions over the conditions of any layoff.

In addition, tripartite adjustment groups, composed of management, local union, and local employment office representatives, may be established with funding from the employment office. Their purpose is to consider alternatives to layoff, such as transfers to other jobs within the firm, or in the event that a layoff cannot be avoided, to help place redundant workers in jobs in other sectors.

The restructuring of Sweden's shipbuilding industry, which Mr. Larsson discussed, was accomplished with such extensive coordination between government, management, and labor, and with a commitment to employment security.

While advance notice and consultation requirements are often viewed as imposing constraints on management and delaying nec-

essary restructuring, there are cogent economic arguments for such procedures. One is that they decrease the costs and duration of unemployment. Workers have more time to search for alternative employment and, importantly, local government may initiate services to workers prior to the layoff.

Delivery of services following a layoff is impeded because workers become scattered and difficult to find. Studies have shown that participation is significantly higher when workers are contacted prior to layoff.

In addition, for restructuring to be successful, ultimately, workers must accept that change. And some would argue that acceptance is best gained with labor's participation in developing work force reduction measures.

The United States is taking steps to improve the delivery of its services and to encourage consultation between labor and management in the event of a mass layoff or plant closure. Under the existing Job Training Partnership Act programs, local business representatives and so-called private industry councils help tailor training programs to local economic needs.

Recognizing the importance of coordination prior to layoff, the recent Department of Labor Task Force recommended the creation of a special dislocated worker unit in each State that would assist firms in establishing joint labor-management approaches to worker dislocation and that would coordinate government responses to mass layoffs or plant closures.

While explicitly patterned on the Canadian Industrial Adjustment Service, the program has obvious similarities to the Swedish adjustment groups. The Department of Labor has tested this approach in the United States, and it has been incorporated in labor and trade bills that Mr. Oswald referred to.

Another more controversial provision contained in certain of these bills is mandatory notice to government and worker representatives of mass layoffs and closures. Though it is controversial, a system of cooperation between government, management, and labor in devising and implementing labor market programs is premised on advance notice, whether such advance is mandatory or voluntary.

To conclude, briefly, the differences in scope and orientation of Swedish and United States labor market policies are unlikely to diminish substantially in the near future. Nevertheless, the United States is taking some modest steps to increase assistance and to improve the delivery of services to dislocated workers. An integral element in emerging policy is the encouragement of tripartite solutions, and that approach, of course, is the basis of Swedish active labor market policy.

Mr. Cox. Thank you very much, Professor Houseman. Much as it pains me to close our panel without pausing now for discussion, I hesitate to take more time than we would then leave for the third panel this morning. And I want to leave enough time for Mr. Gyllenhammar and the discussants of his remarks.

So I think I'll hand the baton on down the table here to Ms. Nonna Noto, the coordinator of the third panel, and then we can have a discussion of everyone's remarks at the conclusion, time permitting.

Nonna Noto is the head of the Taxation and Government Finance Section in the Economics Division of the Congressional Research Service. Ms. Noto.

## PEOPLE AT WORK—QUALITY, PRODUCTIVITY, AND MOTIVATION—NONNA NOTO, MODERATOR

Ms. NOTO. OK. We are going to switch now down to the factory level. If you notice, the title of this section is "People at Work—Quality, Productivity, and Motivation."

I'm really pleased to introduce Mr. Pehr Gyllenhammar, who is the Chairman and Chief Executive Officer of Volvo. I would say he represents excellence in Swedish industry for us.

I hope he takes personal pride, really, in the fact that I think Volvo has been a household word in the United States for at least two decades. While this may not help current sales, I know people who are taking good care of their 12-year-old Volvos. [Laughter.]

The second area really where they achieved prominence is in the innovation in worker participation. I have to tell you that I mentioned this to a young research assistant that I was participating with you and he said, oh, yes, I read about Volvo in school.

So you've even made it into the textbooks. You know, that means some delay. So this reputation comes from way back in the 1970's, long before, really, the Japanese entered the United States market. So please take pleasure in that.

As has been mentioned, Sweden is often mentioned as a chance for the United States to peer into the future. It has preceded us in the demographic and work force changes. So that the case here that I think Mr. Gyllenhammar has put his finger on is that the work force has changed quite a bit and that managers who are faced with a highly educated, trained, and older work force face new challenges in terms of encouraging motivation and productivity.

So I think he will share with us some of his specific ideas about how to handle a situation like that.

I'd just like to mention that it may be of special interest to a Capitol Hill audience that his formal educational training is in the law. Thank you.

## STATEMENT OF PEHR G. GYLLENHAMMAR

Mr. GYLLENHAMMAR. Mr. Chairman, ladies and gentlemen, thank you for a most generous introduction. The only advantage of being the last speaker is that the audience has lost all of its energy and, therefore, not being able to be quite critical. [Laughter.]

I have one objection against one of the discussants, if I may, before I continue, referring to Sweden as a socialist system. I think that's a serious mistake. It's a market economy, and not even the Social Democrats claim that it's a socialist system, for which they're much criticized by the left wing.

Now let me then switch to my topic. We in the West, we enjoy constitutions in our democracies that guarantee freedom for the individual and where we provide guarantees for integrity and where every individual is valuable.

The Japanese, who are perhaps our most fierce competitors, they have a feudal tradition. They have a constitution that was forced upon them by their adversaries. And still, in the modern workplace, as we see today, they make every effort to motivate the individuals. They practice what we preach.

We neglect the individuals, to a large extent, in the workplace. They give time, whether in the form of quality circles, morning exercises, giving the gospel. It is time that they give away to their employees and their workers.

We take away time, traditionally, to give it to operations or to production, as we call it.

Technology is now becoming more and more common, dispersed, and available on a global basis. I think that the Japanese, among others, are convinced that skilled and motivated people make the difference between success and failure if this technology is readily available.

We, in contrast, we raid, we acquire, we slaughter, and we create instant value added from structures of the past. Industry should instead work patiently to build for the future on what we have. The structures of the past will soon be done away with and few opportunities left for the raiders that exist. It will be a thinner market.

We believe in our values. I think the Japanese apply them in the workplace and apply them successfully. We have invented products and processes; they excel in producing them more efficiently than often we do.

So it is a stange world, Mr. Chairman, when we are studying our background, theirs, and the success in industrial terms.

Add to this that our societies used to be designed more or less exclusively to produce goods and services. Our infrastructure was tailored that way. Now we have other needs and other values, so we have a more complex set of objectives.

In Japan, I think they are still primarily focused on the production of goods and services, and even their new infrastructure is designed to make them more competitive, whereas, we use and apply resources in other directions, about which we are naturally quite proud. But it is different.

So in this sense, there's no wonder that Japan, as an industrial nation, has had unprecedented growth, record trade surpluses, and is potentially the richest nation in the world.

Why do I say this? I say it not only to state what seems to be obvious, but also to try and give an explanation that they use their human resources better than we do on average.

Ten years ago, we used to say that their wages are low and they manipulated their currency. Today, their wages are high and no matter how they manipulate their currency, it has skyrocketed, and they still do well.

I think that the human element here is a deciding factor.

So back to the working place. One could say that we should apply our own ideals. If we really mean that the individual is valuable, if we mean that everyone should have equal opportunities, then we should also apply it in the workplace, and I think we will be rewarded.

It is a fact that when executives or people are placed in high positions, they get much attention and care. They get incentive pro-

grams and bonuses and stock option programs and they are sent to courses and programs and they are given time, time and attention; whereas, other workers, blue and white collar people, get little extra, hardly anything. They get their pay through bargaining, but not much time and very little attention.

So this did strike us, and me, back in the late 1960's, when faced with some industrial issues. And instead of wasting creative human resources, it was a matter of trying to set objectives on how to involve them in their jobs. Number one, give them learning, make them understand, trust them, and then delegate.

At one level or in one perspective, this was done through involving employees in the work of the boards. So we invited representatives of the employees in 1971 to become full board members and offered them also programs and courses so that they would not be afraid of the responsibility, but assume it was some pleasure and be able to add something to the corporation.

We also introduced group work councils with a majority of employee representatives to discuss the strategy of the corporation. And I mean strategic issues, important issues to the future of the corporation.

And, again, that was an education, but added onto that were formal programs, training programs, to make them familiar with the type of problems that we were facing and that they were partners in discussing solutions to.

A third element in this was organization development. The effort there was designed, like in many companies, to make an organization with fewer layers and, therefore, flat in its decisionmaking structure. Eventually, that led in our company to a headquarters of 100 people, which is very little. It's very hard to interfere with 100 people because we have 73,000 people employed and they are organized in up to 400 different companies, where in most companies, there are employee representatives on the board.

So there are two things that are achieved to flattening your organization, reducing the number of layers and increasing the number of units that have powers over their own destiny. That is, you get more people involved in decisionmaking. If you then have employee representatives on every board, you have a fair number of employees who participate in board work.

So this is one aspect of employee involvement. And I can say that if we did this, started this in 1971, it became law in 1974, a lot of discussion about the usefulness of such legislation and if the employees would be mature enough to contribute.

There is virtually no criticism in the Swedish industrial or business community today against employee representation. It is regarded as natural, as a contributing factor, and not something that is ever damaging to the development of the corporation.

Now, the other element which is important is the workplace itself. Macroeconomics is a way of putting things in perspective. But the action, the real life, is of course out in the workplace itself. That's where we start. That's where we design the products or the services, produce, and then finally, offer them to the customers or the potential customers.

Our objectives have been to try and create meaningful work for everyone. Let me say right away that in most cases we've obviously

failed. This is very difficult. But in some cases, we have succeeded. And in the cases where we've really succeeded, we've succeeded not only in human terms, but also in financial terms and in product terms and in any terms where we would like to measure success or failure.

Today, we are faced with better educated people than 10 years ago, high employment and hardly any unemployment and, therefore, are competing for new applicants.

We have to design not only meaningful work, but tasks that are there for understandable—if you have fragmented work, monotonous work, like in the modern times, and most of it still exists, how can you engage people in a human effort? You can't.

So we have to make meaningful, complete jobs, to make it possible for people to identify with a product.

Let me just give you one example here.

When you produce an automobile, it is still one of the most cherished products in our industrial society. People spend a lot of time looking for the right car and finding the money to buy it and then maintaining it and then replacing it.

It's still a fact that the assembly plant in the automobile industry has been the symbol of boring, monotonous, and degrading work. It's strange.

So if you could only link the individuals to the product itself, they should be very happy to produce it, at least that seems to be an actual conclusion.

So one of our efforts has been with this rather simple example, to create a working environment where a small group of people can eventually build the whole car. A mother can come home if she's working in the plant and say to her children, I build the blue cars. I take the responsibility.

We are not quite there yet, but we tried to design a plant with these qualities back in 1972, which was meant for the United States in Chesapeake, VA. The oil crisis made us cancel all our plans, unfortunately, but there, 100 people should be organized and trained to build a whole car.

We have now achieved elements of this, not only in car assembly, but also in more complex manufacturing, where people can relate to the product and explain what their job is, and prove that they've done it well or badly. And whenever they can prove it, they do it reasonably well.

Now, there is a myth that when you involve people more in a modern industrial society, you use less technology and more handicraft. We've been criticized with the design of one of our plants that was inaugurated or came onstream back if 1974, that it was primitive. It used the highest technology then available—well, it wasn't available. We had to develop it—in order to release people from the assembly line or the flow.

The new technology, in our opinion, is the technology that releases people. It doesn't make them an integrated part, tools of a process, but supervisors, participants, the masters of the process.

Where we have been successful in designing or developing the right technology to this effect that I just mentioned, then we've also been successful financially.

So in places and plants with involvement, we have lower cost because of higher productivity, we have good quality. And apart from the figures, there is one question I think you can put to the participants, to the employees, and that is—can you affect quality? Do you have any impact on quality?

If they say, yes, they are involved; if they say, no, in my opinion, they are not involved and you have to try again.

Whether you work in product development or on the switchboard or in engineering, we are now trying to create task forces or groups or teams for any type of jobs in order to break down the large departments, in order to attain small size. We are also trying to physically design both offices and factories so that they look small, even if they are part of large systems.

Nothing should really, in my opinion, be much bigger than 20 people.

So, in essence, what we would like to see is people who, whether they work in engineering, product development, marketing, or production, fix their own problems, are equipped and self-sufficient to fix their own problems. Whether they are mechanical or engineering problems in production or problems of software in other departments, they should be able to run their own shop eventually, build their own products and hopefully, design their own jobs. If they are a group of, say, 20 or 30, and they have the responsibility to perform the whole job, then they can also distribute the functions differently between them as time passes and as they mature.

The labor-management or the employment-management that Allan Larsson talks about has been important of underlining and assisting this effort that I'm talking about. The enormous efforts to take people off unemployment into good productive employment also triggers this whole development that we would like to see.

In Swedish industry generally, we have had a very interesting development in this area on the workplace itself. We have shared experiences. We learn from each other. We try to be tough in bargaining. But our employees are our allies. They are the people who build the company. We cannot have adversary rows in running the corporation. And we don't.

Is all well? As I said in the beginning, no. We have far to go and we have much to do.

Is there a Swedish model? No. But there is a cultural heritage. There are values. And there are some shocks. And the shocks of the late 1970's were extremely valuable, both for Swedish economic policy and for managing the workplace and the corporation.

We know that we cannot copy, but we know that we can learn from each other and that learning is becoming more important.

In closing, Mr. Chairman, ladies and gentlemen, the essence or the essential elements of being competitive, in my opinion, are infrastructure, a good and efficient infrastructure. And we should know why we designed it the way we did and, therefore, why it dosen't perhaps work as we wish it to do.

Technology is the other element, good, sound technology. That means applied in a wise way, not high or low—sound.

And perhaps most important, skilled people. Together, this means that you will be competitive on a global basis. Trust, in my opinion, is key.

You know the old statement where one says, as a foreman, you can only expect what you can inspect. It's really the opposite that we are looking for. You don't need to waste your time inspecting. You can use your time trusting, teaching, and learning yourself.

There are good examples of this in the United States. But I would like to end by referring to an example that in a way was good and, indeed, very nice, but it only happened. It was the then Chairman of Ford in the early 1980's, talking about their restructuring and plant closures. There was one—I think it was a stamping plant—that they told their workers and their employees they had to close because it was unprofitable.

They were asked by the unions, or he was asked by the unions because he was there visiting the plant, give us a chance, give us 6 months and we'll show you that we can make this productive and profitable.

He gave the gospel—this was 2 years later—that it worked and he was amazed and he was also delighted, but I think a little bit confused because it wasn't management that fixed the plant. It was the employees.

Yes, we should give everybody a chance. We measure the results by looking at the figures and the attitudes. And we have only started. Thank you.

[The complete statement of Mr. Gyllenhammar follows:]

# PEOPLE AT WORK: PRODUCTIVITY AND MOTIVATION

**Pehr Gyllenhammar**
**Chairman and Chief Executive Officer**
**AB Volvo**

During the 1960's, growth was easy and to be found everywhere. Industrial operations were seen as 'natural' by most people. Industry was rarely criticized, had enormous opportunities, provided jobs and created wealth.

The 1970's had a very different profile. New problems became a common phenomenon and for some companies, this came as a shock. Many corporations, which had done well during the 60's, actually disappeared from the scene.

What happened? There was little growth, many unexpected and undesirable events, political turmoil, oil price increases and the inability of many corporations, unions and governments to confront these problems successfully and without undue discomfort.

Industry learned that you cannot escape labor costs by moving away from them. It is vital to face your own environment, your own labor costs, and your own structure in the environment in which you are operating. And the time has passed when companies could shift production from high costs nations to other countries merely to continue doing a poor job but with cheaper labor. Companies today must face up to the global requirements of productivity regardless of the environment in which they work.

You can learn much from others, but not how your own people function. You cannot be superficial about people. You should respect them, hopefully like them, and care for them. That is the only way to get them to be competitive in a work situation in your local environment.

Even a promising product-market strategy was not enough to survive and prosper in the early 1970's. People were no longer attracted by industry as shown by high rates of turnover and absenteeism. Volvo realized it had to look at people differently. Work was organized--not only to build in more quality but also to attract employees. The company was convinced that work could be made more productive and at the same time more satisfying for the people concerned.

In 1971, Volvo decided to build an assembly plant for cars in the town of Kalmar, where there was acute unemployment. The first blueprints showed a fairly conventional, albeit modern, auto plant. But we needed a more far-sighted production layout. A study was launched to look into how best to meet the goal that the focus should be on the people working in the plant, with humans running the machines and not vice versa.

The ideas that evolved from the study resulted in a document calling for the creation of a production facility that boosted efficiency by enabling workers to work in teams. And through job rotation and breaking of routine, the workers would more easily identify with the product and feel greater responsibility for quality.

Work progressed fast on planning the novel new plant. One stumbling block was how to transport the car through the facility if one did away with the traditional assembly line. The solution proved to be a mobile assembly platform on which each car body would be carried from one work station to the next. And thanks to computer technology these platforms or carriers, as they have now come to be called, could be steered by electrical impulses from contoured loops in the floor. Work on a prototype quickly revealed the advantages that would be gained by installing a device that tilted the body at 90 degrees, and thus easing assembly work under the vehicle body.

The planning project decided to invest in the carrier system, and this in turn opened up a whole range of other opportunities to radically change the working environment.

In the Kalmar plant new technology and new organizational patterns have been combined to create an entirely new type of working environment. This has made it possible for every employee to have meaningful work, personal involvement in his or her day-to-day activity, and a high degree of job satisfaction.

New technology changes the basic conditions that determine the design of organizations and jobs. Radical technological changes, purposefully carried out, can create opportunities to expand job content and simultaneously improve efficiency.

Also, the division of a large organization into several independent production facilities makes the pressures exerted by the external environment much clearer to the small units. It also intensifies employee's awareness of the total context of which their units are a part.

Leadership styles and information policies are of great significance for the employees' commitment. By adapting the technology and the work organization to the people, the often hidden resources of employees to develop and grow, can be liberated.

Many people in the business community rejected the ideas behind the Kalmar concept in the early 70's. They said: 'Are you for profits or for people?' The Kalmar plant is a good example. The project launched the idea of a different way of organizing production. Throughout the 70's, many observers saw the plant as a type of zoo where one was kind and gentle to people so that they would work less, produce less and make a loss rather than a profit.

It is only recently that competitors have realized that this view of Kalmar was a myth. They have learned that caring for employees is a condition of survival and prosperity. Kalmar was not, as they assumed, moving from mechanical engineering to handicraft but rather a new vision of production organization and systems engineering which combined both caring for people and concern for productivity and quality. The Kalmar plant has proven itself and has had one of the most rapid developments of productivity and quality in the Volvo Group.

The Kalmar concept is now common more than 10 years after its inception. At Volvo, it is an 'old' idea but the principle remains valid. The basic

concept of matching people and technology, developing a more flexible system, a learning environment where people take responsibility, has influenced all other plant projects within Volvo since the mid-70's. If a company cannot engage people, cannot attract them to work for you, cannot create the conditions which allow employees to feel that what they do matters, then they will not attempt to meet the production objectives. As competition fiercens, the requirements and ability to adapt to new customer conditions will steer our ability to attract the people we need. Aid, develop and treat them according to our needs.

The essence of Volvo's strategic guidelines about people is more a matter of leadership than money. The more one gives, the more one receives in return. People both inside and outside the company must be the two key priorities. This has implications for management. It is important to realize not only that people produce products and services but it is the basic reason why one deals with people. To do so effectively requires that the manager like people. If he or she does not, it is almost impossible to be a good manager.

In the automotive industry, the standard scenario in the late 60's and the early 70's was that large-scale production would survive and smaller-scale production would die. This view was partly tied to the technology that was available at that time. The automotive industry was using transfer lines, capital-intensive automation, and mainframe computers. This expensive large-scale technology led to the concept of the world car, which was talked about through the 70's.

Manufacturers chose their manufacturing base wherever costs of production seemed to be least and where availability of labor was ample. Then they applied this capital-intensive technology in production.

Today we can see that those industries that have survived were not necessarily the large ones and that small industries can also be successful. In part because of the new technology, there is a mixture of both small and large industries. Robots coupled with new types of numerically controlled (NC)-machine give flexibility. Robot gates are replacing transfer lines. Microcomputers assist or replace mainframe computers on many jobs. Light tools are replacing heavy tools. Trucks used in material handling are superseded by self-propelled electric carriers. Modern information systems allow for delegation and dissemination of information at low cost. This also means that decision making can occur in many different parts of the production system, whereas previously it had to be centralized, both because of the equipment and because of the lack of proper information technology.

The manufacturing industry is still under great pressure worldwide, having gone through a difficult time in the 70's. In the late 60's the attitudes toward the industry were negative, particularly among young people. These attitudes continued into the early 70's, at which time the industry experienced the oil price increase, several recessions, and hardly any corresponding boom in the economy. In addition, the Japanese offensive which began in the 70's has presented difficulties for many companies in Europe and the United States.

As a result, many industries were ailing. Some were subsidized, some were dying, some were restructured, and some succeeded. It has been widely supposed that in the 80's the society based on the manufacturing industry will give way to the service society, the post-industrial society, and possibly a

society for the so-called high-tech industry. However, the concept of a post-industrial society has been misinterpreted. The society of today and tomorrow is highly dependent on industry directly and indirectly to generate products and services as well as jobs. A society without a strong industrial base is a weak society. Today the manufacturing industry is facing a new environment that is a result of the difficulties of the 1970's and the pressures of today. To survive in this new environment, the industry has to be good at everything it is doing. Today industry has to be good at both product development and production. It has to be in command of the development of distribution systems. It must be able to serve the customers and public at large. Last but not least it has to take care of its people and develop people and organization. This means an industry must be precise in its message, offer good care and service, and look upon its total operations as one system.

At Volvo, we opted for this course because we felt we could best solve production problems in an environment we were at home in and understood best. Of course, there are other elements constituting the competitive strengths of an organization, including technology.

New technologies provide opportunities to create more flexible work environments. For example, one of the main problems in large-scale manufacturing or any area of manufacturing--such as the automotive industry--that involves large numbers of components is that of material handling. Here the available technologies include computer-guided carriers that help to keep the floor clear of equipment because all equipment is mobile. This technology also makes it possible to change the layout of the particular workshop to fit work organizations.

What we see, therefore, based on the new technology, is a freedom we have not had before. Manufacturers can either use this freedom to contribute to development of their employees or they can continue to organize their plants in the conservative fashion. Manufacturers will find, however, that the new competitive tool is to organize production so that they can develop their workers. The necessity of employee development represents a major task and a new role for management. Not only does it entail a new kind of technical training, but it also includes training that was not even considered as a subject for blue collar workers 10 years ago.

Manufacturers face many problems related to the fact that manufacturing industry may not have been successful enough, and the availability of new technologies creates a chance to achieve improved growth. It seems obvious in many parts of Europe that the financial returns of manufacturing are too small. It seems clear that this is the case also in the United States. Manufacturers have competition from the service sector, where returns often are more handsome, and from the financial services, where the returns of the last two or three years have been phenomenal even considering the slump from October 19, 1987.

The manufacturing industry is running out of patient capital, which is hardly available anymore. Not only does industry need to apply the new technological means at its disposal, it also needs support to get more glamour, to get more real development. At present the acquisition of industries is often more profitable than adding value through patient and good work.

Quality of product and quality of service are strategic issues whose importance cannot be exaggerated. It is a value which is the sine qua non of being able to reconquer the market every day of the year. Quality weaknesses involve not only the blatantly evident ones associated with the product itself but also how to relate to the customer.

The potential for improving quality is enormous. The companies who can excel in quality, will have a competitive advantage putting them into a class of their own.

Increasing demands from the marketplace are putting pressure on companies to invest in new technology able to help them to develop new products and to improve their manufacturing and administrative processes. New skills must be developed within the companies to master the selection, acquisition, and implementation of this technology.

Investment in new products and new technology implies investment in training and education. People need to have a broader base of knowledge from which to work. In the 60's, emphasis was put on the importance of increasing people's competence. These efforts were, however, neither widespread nor thoroughgoing. The 70's saw a growing awareness of the importance of motivation. There were also those who tried to calculate the economic benefits of training and education, and training programs were considered to be investments, also known as "Human Resource Accounting". Now in the 80's, it is understood that knowledge is a practical necessity and investment in people a matter of long-term survival.

Functional and expert knowledge has to be treated in such a way that it becomes general knowledge throughout the organization. There is a growing gap between the necessity to deepen specialized knowledge and the desirability of spreading some knowledge about many things to most people.

Furthermore, feedback from the marketplace must be passed on to everyone in the company, so that there is a general awareness of the conditions and nature of the business. With the increased competence that would result from such dissemination of knowledge throughout all levels of the company, flexibility would improve because people would be able to take on more responsibilities. The company would thereby decrease its vulnerability.

The basic role of management is to lead the organization toward profitability and financial strength. If these objectives are fulfilled, management will have the freedom to act and choose among alternative strategies. Financial resources, however, are not enough. Capital has to go hand in hand with a holistic approach that includes a vision of how to move an organization and its people.

Ms. NOTO. Thank you very much. I just want this American audience to have due appreciation for the excellent command over the English language that our Swedish speakers have. It's really impressive. Anyone who's studied foreign languages knows that.

OK. As we race to a 12:30 finish to break for lunch, we are fortunate that our next speaker is from Harley-Davidson. [Laughter.]

Robert Walters is the Manager of Organization Development there. I think right now, Harley-Davidson is being hailed as somewhat of a case study and a successful turnaround in the U.S. battle in international competition.

Just to help you recall, back in 1983, Harley-Davidson asked for and received special protection in the form of a 45 percent tariff on imported large motorcycles; namely, Japanese motorcycles. That tariff was scheduled to phase out by 1988. But at the end of 1986, Harley-Davidson's Chairman, Vaughn Bealls, asked the Government to end this tariff protection in 1987, a whole year earlier than had been anticipated.

This turnaround has been attributed in large part to the introduction of some successful new design models, but also to some substantial changes in Harley's internal management practices that help to reduce costs and improve quality.

Our speaker is Mr. Robert Walters, who is particularly interested in cultural differences in management style. So he tells me he would like to comment both on the things we can learn from the Swedes, but also point out some of the cultural differences that suggest that the American model may have to be somewhat different. Mr. Walters.

## STATEMENT OF ROBERT WALTERS

Mr. WALTERS. Thank you, Nonna. It's a pleasure being here. It's really a pleasure being between Ray Marshall and Mr. Gyllenhammar because Harley-Davidson really owes quite a bit to both these individuals. Ray was a very significant player in the tariff protection that Harley-Davidson received back in the early 1980's, and Mr. Gyllenhammar had a lot to do with the Harley-Davidson story because many of the processes and principles that we use at Harley-Davidson are very similar to the Volvo methodology that Mr. Gyllenhammar has been describing.

I'd like to talk a little bit more about those processes, some of the nuts and bolts. I'd also like to comment on the automotive industry in general and the relevance of a lot of what we've been talking about today in terms of that industry.

I think a good way to preamble my remarks would be a very short anecdote.

A few months ago, I was reading in an automotive industry publication right after Chrysler had purchased AMC, an automotive industry analyst had been interviewed and was asked the question, what do you think that Chrysler needs out of AMC?

And he thought for about 5 seconds and he said, simple, a Volvo. [Laughter.]

He didn't mention Toyota and he didn't mention Honda. He mentioned Volvo. I think that by looking at the Volvo story in par-

ticular and the Swedish experience in general, we can take quite a few lessons for our particulate industries.

Like Mr. Gyllenhammar, I'm going to talk a lot about the shop floor. My colleagues have talked quite a bit about economic policies, macroeconomic trends. I'd like to talk more about the microeconomics of working in a business that's highly competitive, that is technologically driven, that is in many areas static, with an aging work force, where we've cut out many levels of management. It's a difficult situation.

Before I begin talking about the specifics of my industry, I'd like to make some observations that I picked up from our discussions today and my experience with my colleagues about what I consider the current situation in the United States.

I see a fragmentation of groups based on ideological differences and production differences. I see differences in expectations of production people versus management people. I see rapidly changing technology in the shop floor with no major retraining taking place to assist workers to adapt and use that new technology effectively.

We have borrowed many techniques from other countries, most specifically, Japan, in how to run our businesses and how to work together. That concerns me on many fronts because in many cases, we have profound cultural differences that I believe oftentimes make the wholesale inclusion of those processes difficult within American business systems.

Last, I see that employment development, whether that be retraining, reduction, relocation, or reemployment, is a local initiative that frequently takes place at the county, city or occasionally, the State level, but rarely takes place at the national level or with very little national coordination.

With a mobile work force and technology that is moving across the United States, frequently outside the United States, I see this particular last issue as extremely important.

I think for the past few years, United States management has highlighted the use of Japanese processes and methods. However, I think that in many ways, if we look more closely at what American industry is actually doing, we are using far more European, specifically, Swedish practices, than we really know.

I'd like to talk really about four specific points. First, the culturally specific management methods that I think we should look at both within the United States and what we've borrowed from other cultures. Second, our emphasis on education in many cases, retraining and retraining priorities, and last, the creation of jobs.

I'd like to finish my talk with looking at some problem areas that I don't think are currently resolved, but I think are some things that we should look at for the future.

In the first, culturally specific management methods, we see in the United Stastes in large industry, and I'm speaking right now specifically of the automotive industry, and I generally consider my company, Harley-Davidson, part of the automotive industry because we work in a very similar environment, the labor-management cooperation is being attempted. Both within my company and within other major companies, we see that there are dialogs taking place that, quite honestly, are extraordinary in the history of our various technologies. We see more of a move toward labor-manage-

ment cooperation that is using perhaps the Swedish model as a method.

Quite honestly, using our Japanese colleagues as models in this area is probably not appropriate. Labor unions in Japan are very industry specific. Very, very few people are organized. The degree of cooperation balanced with adversary that we find in Japan is very different from that in the United States.

In the United States, we're actually trying to move toward worker control of production methods. We're trying to do this in a number of ways. First, formally, by the use of quality circles and other employee involvement planning sessions. We're also trying to do it much more informally.

I think this is something very specific to the United States. We have a long cultural history of egalitarianism, of people at least paying lipservice to the idea that we're all equal.

I think today on the shop floor we're trying to make that kind of ideal work. It's very difficult. It's very complicated. But we are making some attempts.

Quite honestly, I think we have a very long way to go.

We have a cultural history of participation. We have a cultural history of small family-owned businesses. We still have an economy that primarily has an output that is being managed by small businesses. Yes, there are many large businesses, but scientific innovation and large levels of employment are still taking place in the small business level.

What many of us are doing in large companies is trying, as Mr. Gyllenhammar said, to make them smaller, to operate a large company as if it's a small company, by reorganizing people into smaller, more intimate, more controllable functions.

The reason for that, quite honestly, is to get people's commitment.

I don't think that we have a motivation problem in this country. I don't think that we have a commitment problem in this country. What I believe is that we have problems harnessing that motivation and commitment in making the products that we're trying to put out.

I think when employees at all levels are given opportunities to be part of the process, their commitment is willingly given and they are motivated without any large, complicated push-oriented efforts on management's part.

One of the ways that we're doing that at Harley-Davidson is constantly trying to motivate people through the use of things like products by the people, for the people. We don't have inspectors, per se, the way we used to. You don't inspect quality in, you build quality in. Every employee at Harley-Davidson and their counterparts in most of the automotive companies and many other companies are trying to build commitment through worker participation.

An emphasis on education, I think, is very, very useful. I just read an article that said that the United States averages 37 hours per year of employee training. However, over 60 percent of that is on-the-job training, very little classroom training, very little retraining. That means that a very small percentage of any employee's time in this country is used for being retrained or improved.

Compulsary education in Sweden is to the age of 15, with free access above that for college educations for various Swedish citizens.

Japan, in contrast, has a difficult and very hierarchical educational system that very many people find difficult to get into, except at the top-most levels.

Retraining as a part of our motivation and commitment is an important thing to be considering. A regular part of unemployment and reemployment processes could be retraining. Right now, American industry is investing at record levels in new technology. As I said before, not nearly enough retraining is taking place on the workers that are currently working for us to assist them to use that technology effectively.

Again, we see in Sweden quite a different situation. Retraining is a formal, planned program that goes across the board. In fact, I would actually say that in the United States right now, in some areas, we're actually moving backward.

Currently, because the law has expired, educational benefits for retraining employees or operating employee skills is tax deductible as compensation. So in the very near future, we're going to actually have to take taxes out of employees' pay checks for educational benefits that they receive.

Last, the creation of jobs. By organizing at the national level, Sweden has minimized the dislocation by actually helping to create jobs. We do very little of that in the United States. Again, when we work to create jobs in the United States, it is at the local level. Very little national coordination is taking place.

Some problem areas and some concerns that I have for the future. As in the Volvo story, many companies, my own included, are working at making and developing small work cells where people within the work cell are responsible for a finished product. While this works very, very well in developing people's commitment, the problem, and one of the main problems inherent in that, is that people receive a lot of cross-training.

Increasing the level of cross-training works very well for developing a product and getting it to market. However, we have found across the board in my industry and a couple of others that cross-training develops major concerns for job security. People who are being cross-trained or in areas where people have colleagues that are being cross-trained on the factory floor may feel very insecure because they remember our American history of layoffs. And they have to keep in mind that someone else knowing their job may make it easier for them to be out of a job.

The second concern that I have for the future is the fragmentation and division between labor and management. While I've said that we're trying to develop more of a team spirit and work collaboratively together, we have to go quite a long way.

In our company, we believe that it's not a labor problem; it's a management problem. Retraining of workers and changing the way workers interact with management requires that managers be retrained to effectively be able to deal with the new game plan and a new set of rules.

Few employers have very few resources to develop the changes that we're talking about today. At Harley-Davidson, we train our

vendors. All of our vendors, as a matter of fact, have to go through training in new management principles because we're on a just in time inventory system, which means that if they're 2 days late with a product or a part, we have to stop our production line.

We do the best we can to work with area firms in helping them improve their technology in ways of management. That's only a drop in the bucket. While this mentoring is helpful, something needs to be done to help small businesses compete more effectively.

Last, but not least, is the area of creativity. One of the strongest points that the United States has in its favor is that we are a creative group of people. The accent on the individual, the accent on people working together frequently within an atmosphere of conflict enhances our creativity.

What we need to do is find the balance between conflict and creativity, between helping people do their best work and helping them feel safe and secure on the job.

I see that as some of the issues that we have to face in the future.

Ms. NOTO. Thank you very much. Our final speaker is Ray Marshall. I'd like to welcome him back to Washington. Many people may know him here as the Secretary of Labor during the Carter administration. Currently, he is a professor at the LBJ School of Public Affairs at the University of Texas, in his professor's cap. He tells me he has a new book "Unheard Voices: Labor and Economic Policy in a Competitive World."

He is also active in the Economic Policy Council of the U.N. Association, examining issues in international economic policy. He has a distinguished career, both as a labor economist and as a policy adviser. I think he was known for supporting an atmosphere of cooperation between the Government and U.S. companies that were in temporary trouble; namely, Chrysler Corp. and Harley-Davidson, case in point here today.

There's a famous book about Sweden "The Middle Way." He likes to see it, "Sweden: the Balanced Way." And he's going to talk about lessons that we can learn from Sweden and other countries about a cooperative approach for various competing interests to solving some of our problems. Mr. Marshall.

## STATEMENT OF RAY MARSHALL

Mr. MARSHALL. Well, thank you, Ms. Noto. Let me start by commending the Joint Economic Committee and the Congressional Research Service and thanking all of our friends from Sweden for arranging this conference.

I think it is really important to do what we've done here, partly because I agree wholeheartedly with the idea that we can learn a lot from other people. I also agree that we can learn more from Sweden about a lot of things than we can learn from Japan. There's been a fair amount of cross-fertilization between the United States and Japan, a good bit of what is called the Japanese management system that was taught to them by Americans in their occupation in subsequent periods. The big difference was the Japanese believed what the experts were teaching and a lot of

American people wouldn't believe them at the same time. [Laughter.]

Therefore, they have brought it to us and showed us what it really amounts to.

I think particularly, though, in several particulars, the Swedish approach is better. I think it pays much more attention to equity, which the Japanese system does not, enough, in my judgment, in fact, a good bit of what the Japanese do would be illegal if it were done in the United States. For example, the treatment of women as a part of that system.

They have developed an incredibly competitive system, but they have shock absorbers and the shock absorbers are people who have less participation in the whole system. What commends the Swedish system to me is the idea of equity and the solidaristic wage policy and the idea that you will try to do everything possible to prevent a permanent underclass by giving priority to bringing those people up. I think that that's a thing that we can learn a lot from in the United States because we are creating permanent underclasses. We are dividing our population between the haves and the have-nots and I think that's dangerous in a democractic society.

So I think we can learn a lot from the Swedes about that.

I think the Swedish model or approach is better in the sense that the workers have more control over the system than they do in the Japanese system. My own view is that you're not likely to have an effective process of a competitive system without heavy worker involvement. I think that's a proposition that we can debate, but I'm ready to defend it.

I think that, second, you're not likely to have heavy, effective worker involvement unless the workers have an independent source of power that represents their interest in the process.

Trying to have an industrial democracy without unions is like trying to have a political democracy without political parties. It's not likely to be very effective. And therefore, I think that that part of the model is important.

And another one that I think is is the scope; that is to say, the Japanese system is centered in about 30 percent of the economy and only about 15 or 20 percent of the workers get this lifetime employment, whereas, the Swedish system is pervasive.

I think we can learn a lot. We have some ominous trends. I'm struck with the parallels with where we are and where the Swedes were in the middle 1970's and later. I hope that we can deal with those problems as effectively as they do.

If you look at the trends, though, in the United States, a lot of them are not encouraging. One of my favorite Chinese proverbs is that if you don't change your direction, where you're headed is where you're going to wind up. [Laughter.]

The United States needs to pay some attention, I think, to direction.

There are several general relationships that have come out here that I'd like to kind of summarize.

I think a good term to explain and describe what they're doing in Sweden is create pragmatism. It seems to me that that's what we need to do in order to solve problems. If you look at what they've

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done at Volvo, that's exactly what they're doing. It looked far out when they started it. Volvo was criticized. Mr. Gyllenhammar especially was criticized for doing things that appeared to be nonsensical and not profitable and all of the rest.

But what they found is that it was very profitable, even though to a lot of people it was counterintuitive.

One of the things that some of our people taught the Japanese is that if you really want to be competitive, what you'd better do is structure your priorities in a very different way from the way that we did it in the United States and the way they're doing it in Sweden.

That is to say, your first priority ought to be your workers. Your second priority ought to be your customers. Your third priority ought to be your stockholders.

Now, if you structure it in the reverse order, your stockholders will not make out very well in a highly competitive world. If you structure it so that you pay attention to your workers, your stockholders are likely to make out very well, and especially if that process means that you pay attention also to your customers and to service.

I think it's pragmatic what the Swedes do and I'm not sure if the full impact of what they do has been brought out here as a part of this creative pragmatism.

They are trying to do something that most other countries are not doing. A few other countries are. The Japanese, Austrians, and a few others are trying to do this. And that is, not to look at unemployment versus inflation, but to attack inflation and unemployment simultaneously.

Now, if you don't do it that way, then it's going to either be barbaric, which is what we do—if you try to use unemployment as a way to deal with inflation, then you're going to have a barbaric system. Especially if you do what we do in our labor market policy and pay unemployment insurance, say only to 25 to 30 percent of the people who are unemployed.

That approach that the Swedes use I think is terribly important.

Another point that I think is very important here to make some comments about, we've used the term "competitiveness" a lot. I think it's extremely important to be very precise about what that means because it can be very misleading.

In one sense, it means the ability to pay your bills, the external balance. I think that's not a good definition. I think the definition that the Swedes use is a better definition.

They want a high-wage, full-employment economy. It strikes me that that's a very important objective to try to achieve. And what they're telling us is that you can achieve a high-wage, full-employment economy in several ways. One of the general comments is you have to have quality products at competitive cost and you have to have flexibility and innovation, the ability to respond to change.

Now, if you break it down into specifics, though, you can compete in two main ways. One, you can try to compete according to wages, which the Swedes have explicitly rejected, to let wage differentials allocate labor in different places or to try to compete by being a low-wage country.

If an advanced country like the United States tries to do that, we'll lose. We're not going to be competitive with wages.

The second way to try to compete is have superior technology, broadly defined. That would include management systems as a part of the technology. A good way to define technology is the way you get things done. And these management systems are that.

I think one of the greatest innovations of post-World War II is the realization that a management system is a technology just like any other. It can be standardized and exported. And that is the case.

The trouble with what we've done historically in the United States is we've tried to use sophisticated equipment and unsophisticated workers. That is, to try to fragment the work.

Well, if you're going to do that, you're going to lose the industry because there are unsophisticated workers all over the world who can do that work. What that means is you have to be innovative, you have to be out front, you have to constantly be getting what economists call rent. That is, you get some payment for things that other people don't do.

I don't believe that we could do what Sweden does and find a niche, then concentrate heavily on that. I think our economy is too big for that.

And then, of course, in addition to having advanced technology—let me emphasize the importance of that. If we lose our technological edge, we compete according to wages and, therefore, it's very important if you want to be a relatively high-wage country to keep your technological advantage.

Now, the other area is policies and institutions and attitudes. Here I think we have a long way to go. Many of our institutions are obsolete. One of the things that comes through all of these discussions is the importance of recognizing institutional obsolescence.

Economic policies designed to deal with the 1930's will not work in the 1980's and beyond. Similarly, management systems, production systems within a plant designed to deal with the problems of a mass production, goods-producing world won't work in the kind of world that we have today.

Finally, therefore, how would you account for the success of the Swedish model? I think it has been successful and while it has problems like all the rest, it has a mechanism to deal with those problems.

I think, first, as has been said, they put heavy emphasis on people and the development of people, partly because they, like the Japanese, Germans, and a few other people, didn't have a choice. They had to concentrate on their people, and that was the right answer all along. If you had a lot of resources like we did, you ignored that for a long time until you finally are forced to come back to it.

The second thing is democratic institutions. Democracy is a very efficient system, in the workplace, as well as in the society. And Sweden is a showcase of industrial democracy as well as democracy. I can't stress that too much.

Third, they developed balanced policies, and I think that's terribly important. We cannot look at simply macroeconomic policy or a competitiveness strategy and then what happens in the firm. If you

don't look at all of that as a comprehensive piece, then you'll do the wrong thing, or what you'll do at one level will be counteracted at the other.

Basic to that, it seems to me, in the Swedish example, is the importance of consensus building at every level. Most of the systems, if you look at them across national boundaries that have had superior performance on most economic indicators, have one common denominator, and that is they are consensus-based systems. They use different mechanisms to come to it, but it's very important to build that consensus.

Consensus builds trust, improves information, solves problems, narrows the differences between people—it doesn't eliminate them—and therefore, that whole process it seems to me to be extremely important. And therefore, it seems to me that one of the things that we could learn in the United States about that is how do we build that kind of consensus. Thank you.

[The complete statement of Mr. Marshall follows:]

COMMENTARY

Ray Marshall
Professor of Economics
LBJ School of Public Affairs

## I. Introduction

I would like to commend you, Mr. Chairman, and the Joint Economic Committee for arranging this symposium on the Swedish Experience.

I believe it is particularly useful to correct the misconceptions that many Americans -- and especially American economists -- have about the Swedish economy. We tend to be so biased against the kinds of institutions and processes Sweden has developed that many will be surprised at the documentation in peter Wallenberg's paper, which shows how well the Swedish economy has performed. Many Americans are so committed to a competitive laissez-faire system that they have difficulty believing that an economy where 95 percent of the blue-collar work force and over 90 percent of all other workers are union members and where the government is actively involved in the economy can perform as well as it does. Indeed, a common American misconception is that the Swedish economy is "socialist," despite the fact that over 90 percent of Swedish industry is private. Indeed, as Peter Wallenberg's paper shows, some of those private companies are among the most competitive in the world. The Swedes understand, as many of their American critics do not, that interventions that would distort a perfect market are needed to improve the imperfect ones we actually have. The Swedish economy is guided by market processes at least as much as the American, but the Swedes seem to have a better understanding of the market's limitations, as well as its strengths. They recognize that it would be both barbaric and inefficient to intentionally engineer high levels of unemployment to keep wages down, as we and the British have done, or to attempt to rely as heavily as we do on wage fluctuations to allocate labor among alternative occupations, industries, and geographic areas. The American approach not only wastes material and human resources, but also is much less humane than that followed in Sweden and Europe, because a very small percentage of jobless Americans receive unemployment compensation while almost all Europeans receive these benefits. The European compensation systems also replace a much larger proportion of the workers'lost wages. This is so even though unemployment compensation is the main U.S. support program for the unemployed, while the Swedes, correctly, view it as a last resort.

Some American economist not only consider Swedish unemployment to be too low; they also argue that real wages are "too high." These critics believe that there is a "natural" rate of wages established by world markets to which workers in the U.S., Sweden, and other high wage countries should let their wages sink. These analysts and critics should not be surprised that workers in all of the industrialized economies have been reluctant to take their advice--even though real wages in the U.S. have declined since the early 1970s.

Some have referred to Sweden as the "middle way," after the title of a popular book some years ago. I think a better term today would be Sweden the democratic, balanced way. The Swedes, unlike the U.S. and most European countries, have not chosen to pursue full employment or stable prices, but have elected, wisely I think, to emphasize both objectives simultaneously, but to give higher priority to full employment. As a consequence, Sweden has done

much better on unemployment than most OECD countries and has done about as well as most on inflation. Indeed, Sweden has developed a unique and imaginative set of policies to reconcile unemployment of 2 percent or less with price levels about the same as the OECD average. Despite much higher levels of unemployment in almost all other OECD countries, most have no better inflation experience than Sweden. The Swedes have done this not by "incomes policies," used in other countries, but by large and effective active labor market policies to maintain a "solidaristic" wage policy while better matching workers and jobs. Swedish policy makers also have developed measures to make Swedish price and wage determining processes more compatible with the requirements of international competition -- i.e., for the most part, wages are determined by the "room" provided by productivity changes plus or minus relative price movements in the international trade sector. This has proven a difficult challenge for all countries, including Sweden. Indeed, one of Sweden's most important economic policy challenges will be to avoid excessive reliance on currency devaluations as a means of maintaining international competitiveness.

Similarly, the Swedes have not emphasized job growth or high real wages, but have developed policies to make it possible for Sweden to remain a high wage country. This strikes me as the most basic challenge facing all high wage democratic countries. Surely, no industrial countries hope to win a wage cutting contest with the Third World. The Swedes have remained a high wage country by giving heavy attention to the development of their people; being at the leading edge of technological development; and shifting labor and other resources into high-tech engineering sectors out of industries like shipbuilding, textiles, shoes, and garments, where they will not be able to compete with low wage Third World countries. Sweden's performance in making these positive adjustments after 1982, while not without difficulty, was nevertheless impressive. The government's determination not to subsidize inefficient or noncompetitive industries is a necessary condition to remaining a high-wage, full-employment economy.

The Swedes understand, moreover, that a high-wage, high-technology, full-employment economy must be based on a world class system of human capital formation--which means very good health and education services for people throughout their life cycles. The Swedish adult and corporate education systems are particularly impressive.

A well educated, healthy work force is very important to adaptability--another prerequisite to international competitiveness. Adaptability also is enhanced through well developed consensus processes at every level of Swedish policy making. The absence of consensus mechanisms, as I have demonstrated elsewhere, is a major policy defect in the United States. [1] It comes as a great surprise to many Americans that the well organized, consensus-based systems in Sweden have given that economy much more adaptability than the more market- oriented American system, one of whose major virtues is supposed to be adaptability--which, in turn, is supposed to justify all of the human and material costs inflicted on people by competitive markets. Nevertheless, a recent study by a group of economists at the London School of Economics found that of 18 OECD labor markets, the Swedish was the most flexible and the least

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[1] See Ray Marshall, Unheard Voices: Labor and Economic Policy in a Competitive World (New York: Basic Books, 1987).

flexible was not in Britain, as many would have thought, but in the U.S.[2] An adjustment policy that provides for an equitable sharing of the benefits and costs of change clearly is more flexible than one that shifts the costs of change to workers and communities and the benefits of change to higher income groups and corporations. It should come as no surprise that there has been much more resistance to change in the American system, which relies mainly on "the market."

Two other features of the Swedish experience warrant special note. One is the Swedish active labor market policy discussed at greater length in Allan Larsson's excellent paper for this seminar. This is an area where the Swedes have pioneered and demonstrated, I think fairly conclusively, that active labor market policies can be very valuable complements to macroeconomic policies. This has been an area of some controversy in the U.S., because despite strong evidence to the contrary, some macro and neoclassical economists have resisted active labor market policies as unnecessary or even harmful, despite detailed evaluations showing them to be both beneficial to their participants and to society, as well as very cost effective relative to all other means of reducing unemployment. Most U.S. macro-economists seem to accept the classical view of the efficiency of competitive markets, again despite abundant evidence to the contrary. The Swedes have favored active labor market policies as better ways to deal with inflationary bottlenecks in labor markets because these policies work with market forces and not against them -- as is the case with wage and price controls. Controls merely suppress price and wage pressures caused by shortages and obstacles to mobility, whereas active labor market policies relieve the pressures, remove the barriers, and increase the supplies of skilled labor. By spending 2 to 3 percent of GNP on these measures, the Swedes have given them a better test than any other country. Indeed, Sweden, with about one-twentieth of our work force, spends about as much on these programs as we do. Not only have these programs met the stability test of helping Sweden maintain very low levels of unemployment without unacceptable levels of inflation, but they also meet the efficiency test, because they are able to reduce unemployment and promote adjustment very efficiently; and they meet the equity test as well, because they can target resources on people with special needs.

I believe, in addition, that the structuring of Swedish active labor market priorities is right. In balancing labor supplies across industries, locations, and occupations, they use unemployment compensation as a last resort and give priority to skill formation, job placement, and reducing labor market segmentation.

An equally noteworthy feature of the Swedish experience, where they have been real pioneers, is in the area of worker participation, as outlined by Pehr Gyllenhammer in his excellent paper, but more impressively by his pioneering policies at Volvo. Volvo has demonstrated the value of worker involvement at every stage of the decision process -- from the boardroom to the shop floor. Volvo, like a few other well managed companies in the world, gives highest

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[2] C.R. Dean, P.R.G. Layard, and S.J. Nickell, "The Rise in Unemployment: A Multi-Country Study," discussion paper 239, London School of Economics, Centre for Labor Economics, 1985, cited by Bertil Holmlund, "Comments," in Barry P. Bosworth and Alice Rivlin, eds., The Swedish Economy (Washington, D.C.: Brookings Institution, 1987), p. 183.

priority to its workers as the best way to satisfy its customers and stockholders. Most American automobile companies have not historically been as competitive as Volvo because they assigned primacy to stockholders, customers, and workers in that order. Good managers understand that shareholders will prosper and customers will get quality products and good service only if companies have well trained, healthy, highly motivated workers. Unlike the traditional "scientific management" approach in the U.S., Volvo's policies assume workers to be more than appendages to machines; they are based on the conviction that workers understand their jobs better than anyone else and if provided the proper tools, systems, and incentives, will help companies produce quality products at competitive prices. American automobile companies and unions have belatedly learned the value of a more participative system and are attempting to achieve more worker involvement, as are a few other American companies. If ever more evidence was required of the efficacy of a participative production system, the experiences of highly competitive Japanese companies, as well as that of NUMMI, the Toyota-GM joint venture at Fremont, California, provides it. NUMMI took over a plant that GM had closed, and, with essentially the same physical technology and plant, introduced a more egalitarian worker-involved management system and has become one of the most productive automobile plants in the U.S. -- far more productive than GM's highly automated plants in Michigan. Volvo has demonstrated that a participative system is not only more profitable (despite Pehr Gyllenhammer's business colleagues' initial skepticism and even ridicule), but also has considerable capacity for self improvement. Like any other technology, Volvo's production system has become progressively better over the years.

Several unique features of Sweden's worker involvement system should be noted. The first is that it is backed by the strongest labor movement in the world. Sweden's workers are well organized politically and economically. The unions have therefore given the workers a stronger and more independent source of power to back their participation on company boards and in work councils on the shop floor. Unlike Germany, where the unions have sought parity representation on all boards like they have in the coal, iron and steel industries, the Swedish unions have been content with minority representation. They have voice and a minority of the votes on the boards, but rely on unions and their political influence to represent their economic interests elsewhere. The Swedish LO's main policy objective has been to acquire greater ownership to control company actions through the so-called "wage earner funds" to buy company stock, but in 1988 there was considerable ferment on that policy introduced by the Social Democrats after they returned to power in 1982. In Sweden, unlike Germany, there apparently has been very little employer opposition to co-determination and little tendency for groups of stockholders to meet before board meetings to develop strategy independent of the worker representatives, as apparently is the case in Germany.

The Swedish system also is very different from the Japanese system, which has received so much attention in the United States. The main reason for this attention, of course, is that the Japanese management system, together with coordinated consensus-based economic policies and a well educated work force, transformed Japan in a relatively short time from a relatively backward economy devastated by war to the second largest industrial country in the world. The Japanese also have achieved substantially lower rates of inflation than Sweden,

but they have higher levels of unemployment--though generally under 3 percent. While it played an important role in the "Japanese miracle," the Japanese management system, while egalitarian and participative relative to the typical American company, is nowhere near as pervasive or as democratic as the Swedish system. Moreover, while it is smaller and has developed over a longer period of time, the Swedish economy is more flexible and has much higher incomes and productivity than the Japanese. Indeed, the famous Japanese "lifetime" employment system actually only applies to 15 to 20 percent of the work force, while the Swedish system applies to virtually the entire work force. Indeed, the Japanese treatment of women, older workers, and minorities, who are the "shock absorbers" that make the stable core work, would be illegal or unacceptable in the U.S. or Sweden. Moreover, the Swedish workers have much more independent control of the Swedish system than their Japanese counterparts. Relative to Sweden, and even the U.S., the Japanese also have had much weaker social safety nets.

It remains to be seen, moreover, whether the Swedish or Japanese model will be more viable in the long run. In addition to a very competitive management system and coordinated consensus-based economic policies, Japanese success has been due to a patient and hard working labor force and an international system -- especially the United States -- that, until recently tolerated an export-driven industrial policy that protected the Japanese market by various official and unofficial means. The Japanese could, therefore, be relatively unique in not importing the same products they exported, thus building large trade surpluses, which disrupted other markets. Sweden, by contrast, is a much more open economy more willing than Japan to submit its domestic markets to the discipline of international competition. It is clear, moreover, that most industrial countries have become much less tolerant of Japan's industrial and trade policies and there are signs that younger workers will be less willing than their elders to defer consumer gratification in order to restore Japan's national economic power. For all of these reasons, I would bet on the greater long-run economic viability of the more balanced and democratic Swedish model.

This not to argue, of course, that the Swedes have developed the best system for everyone or that they have become independent of the same international economic uncertainties that plague the rest of the world. While the U.S. can learn a lot from both Japan and Sweden, I believe we can learn more from Sweden, but whatever we learn must be adapted to our own realities. Unfortunately, too many Americans have been afflicted with hubris -- always a fatal disease -- that causes us to believe we already have the world's best system and therefore have nothing to learn from others.

The Swedish experience teaches, in addition, that no industrial market economy is immune from international market forces. The Swedish government's attempt to isolate the Swedish economy from the worldwide economic shocks of the 1970's caused a loss of international competitiveness and threatened the Swedish economy. The government's sudden reversal of policy after 1982--based on a resumption of traditional Swedish consensus-based policies and creative pragmatism -- contributed to a remarkable economic turnaround. Swedish leaders developed a consensus to adjust out of noncompetitive industries, to concentrate on a full-employment, high-wage, democratic, advanced technology society. Swedish experience demonstrates, above all, the need for countries, companies and labor organizations to be adaptable in abandoning obsolete institutions as well as obsolete technology -- the policies and institutions appropriate to a more national goods-producing world have become inappropriate to an internationalized knowledge-based information world.

Ms. NOTO. Thank you very much. I see from Mr. Gyllenhammar's watch that it's already past 6:30 in Sweden. Thankfully, it's still close to 12:30 here, so we're nearly on time. [Laughter.] I'll turn it back to the Chairman. Thank you.

Senator SARBANES. We've obviously gone a bit over time and I think we will draw the morning to a close. I want to make just a few comments in the course of doing that.

First, let me just say that I'm a veteran of many, many, many congressional hearings. [Laughter.]

I simply want to say to the participants this morning, and especially to our Swedish guests, that I think this is as fine a presentation as I have sat through.

[Applause.]

Second, I want to register one particular strong impression. I was struck by two attitudes that were reflected in the Swedish participants' discussion of their own experience. They were also underscored by the American commentators.

One was the very strong emphasis on the individual and on the human terms of the workplace. The underlying question is, what does it mean for the single individual person in the workplace and how can it be made a more satisfying experience?

And second was the very strong sense of community that characterizes the Swedish approach—that they're all in it together, it's not a zero-sum game. As one person put it, our employees are our allies; government, business, and labor all regard themselves as partners rather than adversaries.

I'm frank to say I think, speaking of attitudes, these questions we have to ask ourselves are some important questions in this country. How do we develop such attitudes?

And finally, I said at the outset that the symposium was a reflection of the long tradition of cordial and fruitful cooperation between the Joint Economic Committee and the Congressional Research Service. I think that our cooperative endeavor has been clearly demonstrated here today. And a clear reflection of its success is the large audience that came and stayed throughout the morning.

This is a clear tribute to the participants in the symposium. I simply want to express our very deep gratitude to all of them for their very constructive contribution to our dialog.

Thank you all very much. The symposium is adjourned.

[Applause.]

[Whereupon, at 12:40 p.m., the symposium was adjourned.]

## SUMMARY [1]

This year the United States and Sweden jointly mark the 350th anniversary of the founding of the New Sweden colony in the New World. As part of the year-long reflection on the two countries' historical relationship, the symposium provided an opportunity to examine recent Swedish experience in assuring high-wage, full-employment industrial competitiveness in the world economy and to discuss its potential relevance for the United States. Of particular interest was Sweden's success during the 1980's in addressing the problems of budget and trade deficits and accomplishing major structural changes in the economy.

The three Swedish panelists—Peter Wallenberg, Chairman, Federation of Swedish Industries; Allan Larsson, Director General, Swedish National Labor Market Board; and Pehr Gyllenhammar, Chief Executive Officer, AB Volvo—each presented, from his own experience, a strongly positive assessment of recent Swedish economic experience. The six American commentators, drawn from industry, labor, and the academic world, offered a broad range of perspectives on questions raised by the Swedish presentations. Following is a brief summary of major points in the discussion.

### The Swedish Record

*The Swedish economy, like those of other relatively small, trade-dependent nations, is particularly vulnerable both to external economic developments and to policy missteps that undermine competitiveness.*

As a nation, Sweden is highly dependent on the export of manufactured goods. To achieve economies of scale, given its limited domestic market, and to finance its necessary imports of food, energy, and materials, Sweden must sustain its place in world markets despite intensifying international competition in manufacturing. Maintaining a competitive edge in world markets is, therefore, critical to its economic prosperity.

Sweden is committed to rising real income and full employment as part of a national growth policy; rising domestic expenditures are likely to impose severe budget pressures if export earnings do not rise as well. Thus, a careful equilibrium must be maintained between economic resources and domestic economic commitments, requiring effective measures to adjust to changing conditions. Failure to respond to change is likely to have a significant adverse effect on the nation's welfare. As one Swedish panelist stated, a single major error may carry a heavy economic price.

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[1] Prepared by John P. Hardt, Associate Director for Research Coordination, and Jean F. Boone, Senior Research Assistant, Congressional Research Service, Library of Congress.

*The sharp downturn in Swedish economic performance in the 1970's reflected the combined effect of negative trends in the international economy and inflexible domestic policies.*

After the first oil shock in the early 1970's, which brought sharply rising energy costs, inflation, and stagnating global markets, Sweden confronted declining foreign sales, growing trade and budget deficits, rising unemployment, and falling income. Significant increases in oil prices raised the cost of necessary imports of energy, contributing to the foreign trade deficit. At the same time, established subsidy and wage policies led to massive subsidies to shipbuilding and certain other major industries that had grown increasingly uncompetitive in a slumping market, and labor costs rose 40 percent in 2 years.

*A combination of policies, including new industrial and labor market initiatives and currency devaluation, against a background of improved external markets, provided the basis for improved Swedish economic performance.*

As the external environment began to improve in the 1980's, Sweden adopted a range of policies that encouraged the development of specialty consumer and capital goods while deemphasizing such traditional industries as shipbuilding, textiles, wood, and steel. With the concurrent sharp devaluation of the krona, emergent industries were able to compete effectively in the international market.

Decentralization and compression of the hierarchy of management, more direct participation of the labor force in decisionmaking, and new methods of organizing production (creating, for example, small, independent production units) constituted significant innovations in the Swedish "human-resource strategy," encouraging both improved worker productivity and receptivity of workers to new technology. More than one panelist noted that Sweden, with more than half its manufacturing work force in industries keyed to export production, relies heavily on a highly skilled and flexible labor force to remain competitive. Workplace strategies, combined with well-established active labor market programs for worker training, retraining, support and job placement—and close cooperation among labor, management, and government—worked to bring about a decline in unit labor costs and a rise in workers' incomes.

Implemented together, and in the context of a national commitment to full employment, Sweden's policies seem to have made possible a relatively rapid transition from faltering industries to newer industries more competitive in international markets. The construction of a major new Volvo plant in Uddevalla, supplanting an uncompetitive shipyard and employing essentially the same work force, was symptomatic of the shift in focus in the 1980's. Unemployment is lower in Uddevalla today than before the shipyard closed.

## Assessing the Swedish Experience

### *Swedish Economic Performance Since 1982: A Summary Evaluation*

A review of the data on Sweden's budget and trade deficits, employment and unemployment, suggest that the positive change over the 5-year period from 1982–87 was impressive:

| | 1982 | 1987 |
|---|---|---|
| Fiscal balance | Deficit, 6.5 percent of GNP | Surplus, 3.9 percent of GNP. |
| Current account balance | Deficit, 3.7 percent of GNP | Surplus, 0.2 percent of GNP. |
| Unemployment | 3.2 percent | 2.0 percent. |

All symposium participants agreed that the Swedish performance was effective in addressing the country's balance of trade and budget deficits. There were some qualifications, however. Discussants observed that the Swedish labor management reporting system tends to underreport unemployment, since workers involved in training, relocation, and public service jobs programs are not counted; some suggested that, in the longer term, the labor costs and relatively high tax burden may have adverse implications.

### *The Respective Roles of Policy and External Developments in Swedish Economic Performance*

To some degree, policy and external developments were both factors in the relatively slow economic growth pattern of the 1970's and early 1980's, and the vigorous economic performance since 1982. In the 1970's the high price of oil and other materials meant increased import costs, while then-current domestic policies, including large subsidies to industries no longer competitive in world markets, reinforced the negative effects of changes in the global environment. For an economy as heavily dependent as Sweden's on exports—30 percent of Swedish production is for export—the significant increase in costs weakened the nation's competitive position and created a substantial foreign trade deficit.

Beginning in 1982 global recovery from the worldwide recession meant growing demand, especially in the United States. At the same time, in 1982 Sweden embarked on a new policy course, devaluing the krona and implementing policies designed to increase productivity, encourage a shift in resources to more efficient, competitive industries and reduce public expenditures. The sharp fall in oil prices and, after 1985, the decline in the value of the dollar reduced import costs for materials priced in dollars.

Thus domestic policy reform, improved productivity, and more effective export marketing programs coincided with lower costs of critical imports and expanded market opportunities; the result was improved competitiveness and a turnaround in the trade deficit. While the extent to which policy change in Sweden preceded or followed changes in the international economy cannot be precisely determined, it appears undeniable that domestic policies and more propitious world market conditions together facilitated Sweden's return to prosperity.

In this respect it is worth comparing Swedish performance with the performance of other OECD countries operating under similar external conditions. Since 1982 other OECD nations in Europe have achieved growth rates comparable to Sweden's and have addressed trade and domestic deficit problems, but generally with policies of fiscal austerity and increased unemployment. None of the European OECD countries appears to have succeeded as well as Sweden in maintaining simultaneously a high-employment, high-wage economy.

### *Prospects for the Future*

Forecasts for growth in Swedish output, exports, and incomes suggest a slowdown in the gains which took place from 1982 to 1987; one panelist observed that 1987 might turn out to be the strongest year in the 1987–90 period. According to a recent analysis by the Federation of Swedish Industries, a current account deficit of about 1.7 percent of GNP may reappear in 1988, as exports are projected to increase 1.0 to 1.5 percent while imports are expected to increase 5 percent. While anticipating the possibility of a slowdown from the 2.5–2.7 percent annual rate of GNP growth in 1987, none of the panelists suggested that Sweden is headed toward a return to the performance levels of the 1970's either as measured by economic indicators or in terms of the structure of foreign and domestic markets.

## Potential Relevance of the Swedish Experience to the United States

Sweden and the United States obviously differ in terms of size, heterogeneity, historical experience, and institutional structures for addressing questions of economic policy. The cooperative relationship of government, management, and labor in Sweden draws on a long-established tradition; and where education and training requirements are concerned, the Swedish work force is relatively homogeneous—much more so than its American counterpart. Furthermore, Sweden's highly unionized economy does not have sharp wage disparities between older, manufacturing industries and newer occupations, and Swedish workers are, therefore, relatively flexible in their approach to job changes.

The relative size of the Swedish economy means that it does not play the pivotal role which the United States plays in the world economy, a role carrying special burdens and constraints. With the world's largest domestic market, the United States is the target of competitive products from many countries: participating in the U.S. market is of paramount importance to the economic well-being of most of the other advanced industrial economies. By the same token, any major expansion of U.S. exports has a very significant impact in economic terms, with diplomatic and political implications as well.

But while the Swedish experience is unique in many ways, in several significant respects it may have implications for the United States and other nations. Especially important appears to be Swedish emphasis on strengthening the quality of labor, management, and production by bringing together a highly skilled labor force

with advanced technology. In this effort education, retraining, and more direct worker participation play central roles. In contrast to industrial nations which seek to improve competitiveness in domestic and world markets through lower wages and austerity, Sweden gives high priority instead to raising productivity, incomes, and employment.

*The Use of Coordinated Policies*

Sweden has used carefully focused policies to promote development of the high value-added electronics, machinery and automotive industries which offer opportunities for steady innovation in technology and product design in a dynamic world market. Sweden has also used exchange rate, export promotion, fiscal and regulatory policies to encourage export-oriented industries.

*Technological Innovation*

But a central factor in the Swedish adjustment to changed market conditions is the willingness of management and labor to support programs for rapid introduction of new technology. With job security assured and prospects for increased income tied to the introduction of new technology, labor is prepared to support, and even seeks, technological innovations in the workplace. With technological change as a feasible means to reduce costs and improve competitiveness, management is prepared to commit investment to new technology and allocate important resources to job training. Although the size and diversity of the U.S. economy means that the spectrum of American competitive industries will necessarily be much broader, the consistent emphasis in Sweden on quality, competitive costs, and specialization warrants examination.

*Focus on the Work Force*

Sweden relies on an efficient employment service, comprehensive training, counseling and rehabilitation programs and some direct job creation—particularly for disabled and teenaged workers—to promote the nation's full-employment objectives. Close cooperation among government, labor, and management to achieve these objectives has reduced the prospect of long-term unemployment and in so doing has served to facilitate modernization and adjustment in the industrial sector.

Sweden's employment service and training programs are broader in scope and orientation than comparable programs in the United States. With a work force of 5 million, Sweden spends $5 billion annually on labor market initiatives, of which about 70 percent is directed to training and retraining and the remaining 30 percent to unemployment programs; the United States, with a work force more than 20 times as large, spends about $6 billion on employment, training, and vocational education programs and $25 billion on unemployment benefits. Roughly 40,000 Swedish workers, constituting about 1 percent of the labor force, are enrolled in training programs at any given time, and approximately 130,000 are enrolled over the course of a year.

### *Plant Management Practices*

At the factory level there has been increasing reliance on a "flat decision structure," reducing the management hierarchy and expanding workers' participation in decisionmaking. (As an example, Volvo is organized into 400 units with 73,000 workers and a headquarters staff of only 100.) Extensive education and cross-training have equipped managers and workers alike to undertake a broad range of production tasks, and the result has been significant improvement in productivity and quality. Several panelists suggested that Swedish practices at the plant-management level, if properly adapted to United States conditions, might contribute to improving United States productivity.

### *Summary*

Since 1982 Sweden has by and large succeeded in eliminating its trade and current account deficits while at the same time maintaining the nation's longstanding commitment to a high-wage, full-employment economy with a rising standard of living. From their varying points of view the symposium participants sought to analyze the Swedish experience, focusing especially on the macroeconomic and microeconomic policies underlying Sweden's new international competitiveness and on the extent to which these policies could be implemented effectively in the United States.

The United States and Swedish economies differ so significantly in scale and diversity that the Swedish economic experience since 1982 can only be suggestive, not prescriptive. Nonetheless, it appears worth noting, from the United States perspective, that the competitiveness of the Swedish economy could not have been restored without a strong consensus among labor, management, and government with respect to the path to be taken, and without a fundamental commitment to see that every worker received the education and training necessary to play a productive role in the newly reinvigorated economy.

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ABSTRACT

This bibliography list works on economic trends and developments in Sweden, covering a period from 1980 to the present. It focuses on Sweden's international competitiveness, economic and social policies, the industrial sector, labor policies and productivity, and education in the broad macro-economic setting. The bibliography is divided into five subject sections; four of these are subdivided into sections covering articles and books.

# THE SWEDISH ECONOMY: ASSURING INDUSTRIAL COMPETITIVENESS AND FULL EMPLOYMENT: A SELECTED BIBLIOGRAPHY, 1980-1988

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Contents.--Current trends and short-term forecasts.--Policy in a medium-term perspective.--Net exports and investment: better inflation performance holds the key.--Financial markets: from credit rationing to greater market efficiency.--Conclusions.
This OECD report is updated annually. The 1988 edition is to be published in mid year.

The Swedish economy. Edited by Barry P. Bosworth and Alice M. Rivlin.
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Contents.--Overview, by Alice M. Rivlin.--Adjusting to slower economic growth: the domestic economy, by Barry P. Bosworth and Robert Z. Lawrence.--Adjusting to slower economic growth: the external sector, by Robert Z. Lawrence and Barry P. Bosworth.--Economic goals and the policy mix, by Barry P. Bosworth and Robert Z. Lawrence.--Efficiency and equality in Swedish labor markets, by Robert J. Flanagan.--Taxes, transfers, and Swedish labor supply, by Gary Burtless.--Rethinking the role of the public sector, by Edward M. Gramlich.--Political foundations of Swedish economic policy, by R. Kent Weaver.

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Monetary policy, selective credit policy, and industrial policy in France, Britain, West Germany, and Sweden. Washington, G.P.O., 1981. 215 p.
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Contents.--Credit policy and industrial policy in France.--Monetarism and supply-side economics in the United Kingdom.--Monetary stability and industrial adaptation in West Germany: pro.--Monetary stability and industrial adaptation in West Germany: con.--Economic stagnation and social stalemate in Sweden.

Vagval i svensk politik.
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Contents.--Economic policy and performance in Britain since World War II, by W. Beckerman.--Japan's growth problem, by Y. Kosai.--Economic growth in Sweden, by U. Jakobsson.--From economic miracle to stagnation: on the German disease, by F. Wolter.--U.S. stabilization policy: lessons from the past decade, by R. Gordon.--Tanzania: Phoenix or Icarus? by U. Lele.--Ghana, 1950-80: missed opportunities, by M. Roemer.--Episodes in Indonesian economic growth, by M. Gillis.--Jamaica: liberalization to centralization, and back? by G. Bonnick.--Taiwan's economic miracle: lessons in economic development, by S. Tsiang.--Mexico's path from stability to inflation, by F. Gil Diaz.--Uruguay's erratic growth, by R. Diaz.--Problems of liberalization, by A. Krueger.--Economic policy and economic growth, by A. Harberger.

## II. INTERNATIONAL COMPETITIVENESS AND FOREIGN ECONOMIC RELATIONS

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Bergendorff, Hans. Larsson, Torsten. Naslund, Ruben.
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"Arguments for and against monopoly and competition in the provision of telecommunication services are considered from the perspective of a dominant telecommunications operator in a small European country, Sweden. The importance of provision of public services is stressed as well as the need for efficient international standardization."

Cole & Corette.
Foreign tax practices affecting exports. Washington, Cole & Corette, 1982. 52 p. LRS82-16542
The tax practices of six foreign countries--France, West Germany, Japan, the Netherlands, Sweden, and the United Kingdom--have been examined to determine how they affect exporters in each country. Only the tax rules were reviewed. No attempt was made to examine non-tax programs such as export insurance and export financing programs. Concludes that these countries use their tax system to foster exports and that each does so "to a greater degree than does the U.S. with its provisions for DISCs."

Devlin, James M.
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Hoekborg, Sven-Olof.
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How Sweden built a competitive fighter aircraft "on a low, low budget."

Lipsey, Robert E. O'Connor, Linda.
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Examines the characteristics of firms that were taken over and analyzes their performance.

Patel, Pari. Pavitt, Keith.
Is Western Europe losing the technological race? Research policy, v. 16, Aug. 1987: 59-85. LRS87-9477
"Using a variety of indicators, this paper compares technological levels in Japan, the USA and Western Europe. There is no justification for assuming general European technological backwardness. Whilst it lags in electronics, and since 1975 has had a relatively slow rate of growth of innovative activities, it also has sectors of strength (chemicals, machinery, production engineering), and countries whose relative commitments of resources to innovative activities are at least equal--and sometimes superior--to those of Japan and the USA (FRG, Sweden, Switzerland)."

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Books

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"This report describes the main developments in competition policy and law enforcement in OECD countries and by the institutions of the European Communities in 1983 and early 1984." The reports in this work cover 18 countries "Australia, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Ireland, Japan, Luxembourg, the Netherlands, Norway, Spain, Sweden, Switzerland, the United Kingdom and the United States."

Exchange market intervention and monetary policy. Basle, Switzerland, Bank for International Settlements, 1988. 200 p. LRS88-2260
Contains country papers on the exchange market management and monetary policies of eleven European countries (France, West Germany, Sweden, etc.), Japan, and the U.S.

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Growth, allocation and trade in Sweden: an empirical application of the Heckscher-Ohlin theory. Stockholm, Institute for International Economic Studies, University of Stockholm, 1981. 210 p. (Institute for International Economic Studies, University of Stockholm, no. 12)
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Who controls international business activities?, by Lars Engwall and Jan Johanson.--International take-overs and technological intensity, by Olof Erland.--Taxation of international corporations, by Robert Joachimsson.--WIMCO, by Hans Jansson.--Negotiating package deals, by Pervez N. Ghauri.--Management contract and internationalization, by Dharma Deo Sharma.--Stability and change in supplier relationships, by Lars Hallen.--Foreign owned corporations and co-determination, by Klas Levinson.

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Technology policy trends and information services in Sweden and China: a comparison. Sun Xuechen in collaboration with Erik Baark. Lund, Research Policy Institute, 1983. 50 p. (Technology & culture occasional report series no. 9; Research policy studies. Discussion paper, 0349-1676, no. 153) T26.S9S9 1983

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## III. INDUSTRIAL SECTOR

### Articles

Carlsson, Bo.
The content of productivity growth in Swedish manufacturing. Research policy, v. 10, Oct. 1981: 336-355. LRS81-16802

Breaks down total factor productivity growth through disaggregation to lower and lower units of observation in order to separate out structural from "purely technical" changes and presents a framework for analyzing how productivity changes at the micro level can be aggregated to the macro level, using a micro-based macro simulation model of the Swedish economy.

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Industrial subsidies in Sweden: macro-economic effects and an international comparison. Journal of industrial economics, v. 32, Sept. 1983: 1-23. LRS83-17624

Investigates the magnitude of the Swedish industrial subsidy program during the 1970s. Compares this program with similar programs in other countries. Asks what were the macroeconomic effects of the subsidies on ailing firms and what alternative measures could have been taken.

Deindustrialization: restructuring the economy. Annals, v. 475, Sept. 1984: whole issue. LRS84-10657

Partial contents.--The magnitude of job loss from plant closings and the generation of replacement jobs: some recent evidence, by C. Harris.--Is deindustrialzation a myth? Capital mobility versus absorptive capacity in the U.S. economy, by B. Bluestone.--The human response to plant closures, by K. Root.--The human resource implications of plant shutdowns, by J. Gordus.--Responses to plant closures and major reductions in force: private sector and community-based models, by R. Fedrau.--Industrial restructuring: public policies for investment in advanced industrial society, by E. Blakely and P. Shapira.--The policy response to factory closings: a comparison of the United States, Sweden, and France, by G. Hooks.

Grant, R. M.
Appraising selective financial assistance to industry: a review of institutions and methodologies in the United Kingdom, Sweden and West Germany. Journal of public policy, v. 3, Oct. 1983: 369-396. LRS83-17432

"A survey of institutions and methodology across the three countries reveals inadequacies in the quality and the extent of governments' appraisal of industrial assistance measures. The principal problems of quantitative appraisal are identified and discussed and suggestions are made for improvements in the procedures and methods of appraisal, with the purpose of improving the formulation and the implementation of policies of selective industrial assistance."

Hekman, John S. Strong, John S.
Is there a case for plant closing laws? Federal Reserve Bank of Boston New England economic review, July-Aug. 1980: 34-51. LRS80-9863
"Plant closing laws have been proposed to stem 'capital flight' from the North. A study of the evidence and an examination of Sweden's experience suggest that such laws are not directed at the real problem. The article presents an alternative view of changing industrial patterns."

Hesse, Dieter M. Tarkka, Helena.
The demand for capital, labor and energy in European manufacturing industry before and after the oil price shocks. Scandinavian journal of economics, v. 88, no. 3, 1986: 529-546.
The price and substitution elasticities for factor inputs--capital, labor, fuels (coal, gas, fuel oils), and electricity--are estimated for total manufacturing industry on the basis of a pooled cross-country time-series analysis for 9 West European countries (Belgium, Finland, France, Germany, Italy, the Netherlands, Norway, Sweden, and the UK). The effect of the economic disturbances of the 1970s on the price sensitivity of demand is examined by estimating a translog cost function for 2 separate periods, 1960-1972 and 1973-1980 (a period of sharply rising energy prices). Two different model specifications are tested; one allows for biased technical changes, while the other assumes that technical change is Hicks neutral. The latter specification is clearly rejected for both periods. The results show some quite significant changes in the elasticities over the 2 periods. For example, fuels and electricity are strong components in the first period, but the 2nd period sees a clear swing toward substitutability.

King, Mervyn A. Fullerton, Don.
The taxation of income from capital: a comparative study of the U.S., U.K., Sweden and West Germany--the theoretical framework. Cambridge, Mass., National Bureau of Economic Research, 1983. 35, [9] p. (Working paper no. 1058) LRS83-2206
"This chapter defines the methodological problems of estimating effective tax rates on income from capital, and it defines the limits of this analysis by pointing out areas that are excluded by this study. It sets out the parameters that need to be estimated for each country, and describes other data requirements involving the amount of each capital asset located in each industry, financed by each source, and owned by each ownership category."

Kuttner, Robert.
Tax policy and capital formation in the U.S. and Europe: reconciling growth with equity. Tax notes, v. 15, Apr. 19, 1982: 163-180. LRS82-3610
"Kuttner examines the link between economic growth and distributional equity. In particular, he looks at the role of tax policy and capital formation in four different countries: the United States, Great Britain, West Germany, and Sweden. Kuttner challenges the U.S. belief that capital formation crucial to economic growth can only be stimulated by tax policies that have the effect of favoring the rich."

Nordic banks respond to pressure. Banker, v. 132, Sept. 1982: 51-52, 55-56, 61-62, 65, 67. LRS82-12395
Finds that "international economic recession has caught up with the Scandinavian countries, and their banks are squaring up to the possibility of greatly increased international competition."

Pechman, Joseph A.
Tax reform prospects in Europe and Canada. Brookings review, v. 5, winter 1987: 11-19. LRS87-157
Surveys what the major tax issues are and the solutions being considered in seven countries: Canada, Sweden, the Netherlands, France, Italy, West Germany, and the United Kingdom. Discusses the potential for tax revision.

Steinmo, Sven.
So what's wrong with tax expenditures? A reevaluation based on Swedish experience. Public budgeting & finance, v. 6, summer 1986: 27-44.
Discusses the role of special exemptions and deductions in Sweden's general economic success.

Stuart, Charles E.
Swedish tax rates, labor supply, and tax revenues. Journal of political economy, v. 89, Oct. 1981: 1020-1038. LRS81-17024
"Effective marginal tax rates on labor income for the 'representative' Swede have increased from roughly 50 percent in 1959 to 80 percent today. The effects of this increase in the level of taxation are examined using a two-sector model parameterized to correspond to the Swedish economy . . . . Calculations of total tax revenues are also derived from the model. These peak when the tax rate is approximately 70 percent, indicating that Sweden is presently on the downward-sloping portion of its 'Laffer Curve.'"

Taylor, John B.
The Swedish investment funds system as a stabilization policy rule. Brookings papers on economic activity, no. 1, 1982: 57-106. LRS82-8922
"The Swedish investment funds system used for countercyclical purposes during the 1950s and 1960s provides a rare opportunity to study a policy rule in operation . . . . The main objective of this paper is to reexamine the Swedish investment funds system from the perspective of the new methodology of policy evaluation research." Finds that "the Swedish investment funds system reduced the cyclical fluctuations in investment during the late 1950s and 1960s. The system had a major impact on the effective price that firms paid for investment goods, and in general this impact was countercyclical with the price being relatively low during recessions and high during booms."

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The effects of capital taxation: an equilibrium asset market approach. Uppsala: S. Academiae Ubsaliensis; Stockholm, distributor, Almqvist & Wiksell International, 1986. 123 p. (Studia oeconomica Upsaliensia, 9) HB51.S7, no. 9

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Fredriksson, Carl. Ribrant, Gunnar.
The net costs of government support to Swedish industry. [Stockholm], Ministry of Industry, LiberForlaget, [1982] 40 p. HD3646.S8F73 1982

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Bibliography: p. 204-205.

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Includes bibliographical references.

King, Mervyn A. Fullerton, Don.
The taxation of income from capital: a comparative study of the U.S., U.K., Sweden and West Germany--comparisons of effective tax rates. Cambridge, Mass., National Bureau of Economic Research, 1983. 1 v. (various pagings). (Working paper no. 1073) LRS83-2214
"Compares effective tax rates in the four countries for different assets, industries, sources of finance, and ownership categories. Differences in overall effective tax rates among countries are attributed to differences in rates of inflation, actual depreciation, tax parameters, or differences in the amount of capital in each combination."

Sweden works--industry in transition. Goteborg, Volvo Media, 1987. 90 p.
LRS87-12145
Contents.--A nation in transition, by Michael Hinks-Edwards and Victor Kayfetz.--How an employment crisis was prevented, by Lars Ragnar Forssberg. --From Kalmar to Uddevalla, by Ake Landquist.--Bringing the employees into the boardroom, by Anders Isaksson.--Factory automation: empowerment instead of impoverishment, by Mats Hallvarsson.--The Swedish vision, by Ingvar Carlsson.--The Swedish information industry, by Gottfried Grafstrom.--Sweden among the top nations in research and development, by Ake Landquist.--A high-tech method for curbing solvent emissions, by Ake Landquist.--A hothouse of innovation in optical measurement, by Ake Landquist.--The Swedish pharmaceutical industry, by Christer Gladh.--The jewel of the kingdom, by Mats Hallvarsson.

Wyatt, Geoffrey.
Multifactor productivity change in Finnish and Swedish industries, 1960 to 1980. (Kokonaistuottavuuden muutokset suomen ja ruotsin teollisuudessa vuosina, 1960-1980) Helsinki, ETLA, Elinkeinoelaman Tutkimuslaitos, 1983.
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## IV. LABOR POLICIES AND PRODUCTIVITY

### Articles

Aguren, Stefan. Edgren, Jan.
New factories: job design through factory planning in Sweden. [Stockholm], Swedish Employers' Confederation, Technical Dept., [1980] 108 p. TS177.A385
Includes bibliographical references.

Albage, Lars-Gunnar. Fjallstrom, Harry.
Recent trends in collective bargaining in Sweden. An employer's view/a trade unionist's reply. International labour review (Switzerland), v. 125, no. 1, Jan.-Feb. 1986: 107-122.
In the past decade, the harmonious labor-management relations mood in Sweden has shifted from consensus to polarization. This has been attributed to the developments that have altered the pattern and content of collective bargaining. The employers tend to believe that the nationwide centralized negotiations have led to large cost increases but have not been able to prevent labor disputes. They argue that the central agreements have been too inflexible and detailed and have tended to exert an exaggerated influence over the local labor market. This has not given employers' associations and companies enough leeway to adapt wages to their own circumstances. The trade unions, however, blame the high taxes and labor costs, the low capital, and the overly restrictive labor legislation. Employers have been particularly sensitive to the alleged inadequacy of wage differentials.

Albrecht, Sandra L.
Preconditions for increased workers' influence. Sociology of work and occupations, v. 8, May 1981: 252-272. LRS81-19819
Argues that "contrary to postindustrial theorists' contention that participatory demands rise out of the positive effects of industrial development, findings suggest that a more common perspective of Swedish interview respondents is that the increased interest in participation has risen from a negative reaction to the effects of industrialization."

Asard, Erik.
Employee participation in Sweden 1971-1979: the issue of economic democracy. Economic and industrial democracy, v. 1, Aug. 1980: 371-393. LRS80-21076
Describes and analyzes the historical and political background of the Meidner report that called for the establishment of the Wage Earners' Investment Funds (WEIFs), owned collectively by the employees and their unions and financed from the profits of the larger private enterprises. Also explains why the Social Democratic Party (SAP) was far behind the Swedish Confederation of Trade Unions (LO) on the issues of economic democracy and WEIFs in 1975-76.

Bairstow, Frances.
The trend toward centralized bargaining--a patchwork quilt of international diversity. Columbia journal of world business, v. 20, spring 1985: 75-83. LRS85-8194

"This article is concerned with the question of whether collective bargaining outcomes are determined by the organizational structures of the union and management groups which engage in the bargaining. The contrasting experiences of the parties of some of the major democracies of the world are described. Special attention is focused on Japan, Germany, Sweden, Australia, the United States, and Canada."

Bellace, Janice R. Gospel, Howard F.
Disclosure of information to trade unions: a comparative perspective. International labour review, v. 122, Jan.-Feb. 1983: 57-74. LRS83-2764

"This article deals with the operation of the law on disclosure of management information to trade unions in three Western market economies: the United States, the United Kingdom and Sweden. It describes and evaluates the strengths and weaknesses of the legal approach to disclosure in each country."

Bendick, Marc, Jr.
Dislocated workers and midcareer retraining in other industrial nations. Washington, Urban Institute, 1983. 24 p. LRS83-14240

"The United States is by no means unique among market-oriented industrial nations in experiencing rapid structural change in its economy and reemployment problems among dislocated midcareer workers. Shipyard workers in Sweden, textile workers in France, steelworkers in Great Britain, coal miners in Germany, and auto assemblers in Canada have each faced plant closures and employment reductions paralleling those in similar industries in the United States. This paper examines the experiences of three such nations in addressing this problem, drawing therefrom useful lessons for American initiatives. The three nations, in the order in which they are discussed, are Sweden, Canada, and France."

Bernstein, Paul.
Work in Sweden: trouble in paradise. Wharton magazine, v. 6, summer 1982: 46-52. LRS82-7312

Examines proposition that "several significant trends have not only undermined the Swedish capacity to invest and produce, but also weakened the positive human and economic results that could have been anticipated from the quality of work life programs initiated at Volvo, Almex, Atlas Copco, and ASEA." Believes that the expansion of social legislation which reduced the need to produce helped undermine Swedish success.

Bresnick, David.
Policymaking by partnership: reshaping youth employment policy. Journal of policy analysis and management, v. 4, fall 1984: 23-38. LRS84-14228

"An investigation of policymaking affecting youth unemployment in six advanced industrialized countries indicates differences and similarities. Policies and programs in this area seemed most successful in those countries (Sweden, France, West Germany, Japan, Great Britain, and the U.S.) in which business and labor departed from the familiar role of special interest groups and instead cooperated actively on policy formulation and execution."

Capdevielle, Patricia. Alvarez, Donato. Cooper, Brian.
International trends in productivity and labor costs. Monthly labor review, v. 105, Dec. 1982: 3-14. LRS82-15568
"This article describes developments in manufacturing productivity (as measured by output per hour), hourly compensation, and unit labor costs in 1981, and compares the 1980-81 trends with those of the 1974-75 recession, for the United States, Canada, Japan, France, Germany, Italy, the United Kingdom, and four smaller European countries--Belgium, Denmark, the Netherlands, and Sweden."

Deutsch, Steven.
Work environment reform and industrial democracy. Sociology of work and occupations, v. 8, May 1981: 180-194. LRS81-15035
"This article suggests the importance of connecting work environment issues with concerns of worker control. In particular, some of the legislative reform efforts in Norway and Sweden are outlined with an analysis of current developments in the United States. Whereas there are limited advances in democratizing the workplace head-on, there are considerable achievements illustrated whereby laws and policies have advanced worker control over technology, production, and work processes through a work environment reform strategy."

Eiger, Norman.
Economic democracy and the democratizing of research: the approach of the Swedish labor movement. Labor studies journal, v. 7, fall 1982: 123-141. LRS82-16840
Discusses how Swedish labor attempts to influence research policy and how resources are distributed to research projects. Focuses "on the involvement of workers in research projects, problem definition, and problem-solving in their working environments and through their local union organizations."

Fleischauer, Barbara Jo.
Occupational safety and health law in Sweden and the United States: are there lessons to be learned by both countries? Hastings international and comparative law review, v. 6, winter 1983: 283-354. LRS83-15140
Article concludes that "neither Sweden nor the United States is likely to benefit from wholesale adoption of the other's programs. Inspectors in Sweden, accustomed to the freedom and discretion they have been allowed to exercise, will not take kindly to stricter controls such as the computerized reporting systems used by OSHA. Management in the United States is unlikely to graciously accept the right of union stewards to unilaterally halt work for safety reasons. In such areas, cultural traditions and differences must be taken into account."

Geers, Frederick.
Labour market training in Sweden--a reflection of Swedish society. Journal of European industrial training (UK), v. 10, no. 4, 1986: 25-31.
The aims of labor market-oriented vocational training in Sweden, which began just after World War II, are stabilization, distribution of means, and economic growth. A recent organizational change was aimed at giving more flexibility, marking better use of resources, reducing detailed controls, and achieving greater decentralization. The major part of training activities take place in 50 centers and 100 affiliates located across the country. The courses vary in length and degree of qualification from a few weeks to 2-year courses. The program focuses on individuals who have a weaker position with respect to the labor market. This specifically includes the handicapped, immigrants, the long-period unemployed, women, and individuals with low education standards. For the period 1979-1983, a total of 63% of trainees were placed in a job within 6 months of completing the training.

Gill, Colin G.
Swedish wage-earner funds: the road to economic democracy? Journal of general management (UK), v. 9, no. 3, spring 1984: 37-59.
Substantial controversy has surrounded the Swedish Parliament's recent passage of legislation providing for wage-earner funds, a type of profit-sharing scheme. The evolution of the Swedish legislation is discussed, and consideration is given to similar types of legislation enacted by other European nations. The purpose of the legislation is to improve the distribution of income in Sweden and to increase employee participation in corporate management. Controversy can be expected to continue over the legislation as problems arise regarding unions' contradictory role as corporate fund managers and labor representatives.

Ginsburg, Helen.
How Sweden combats unemployment among young and older workers. Monthly labor review, v. 105, Oct. 1982: 22-27. LRS82-13173
"Joblessness among the 16- to 24-year-olds and those 45 years and over in Sweden, although low by American standards, worsened during the recessions of the 1970's; government responded with innovative policies to increase job prospects for these groups."

Graubard, Allen.
Ideas of economic democracy: workers' control and public rights. Dissent, v. 31, fall 1984: 415-423. LRS84-13084
Discusses participatory management in Sweden and the U.S.

Hauck, Warren C. Ross, Timothy L.
Sweden's experiments in productivity gainsharing: a second look. Personnel, v. 64, Jan. 1987: 61-67. LRS87-1139
"U.S. companies, intent on digging themselves out of the productivity dolrums, have heeded developments in gainsharing experiments at Volvo's Kalmar plant."

Jones, H. G.
Scenarios for industrial relations: Sweden evolves a new consensus. Long range planning (UK), v. 20, no. 3, June 1987: 65-76.
The Swedish model of industrial peace achieved through consensus of objective thrived virtually unmodified for some 30 years despite movement in the relative strength of labor and management. However, in recent years, the consensus approach has broken down in the areas of: 1. the worker funds, 2. the law on co-determination at work, and 3. wage negotiations. Worker funds, the area of most contention, has gone through a painful evolution. The Confederation of Blue Collar Unions (LO) tried to strengthen its power base through the funds. The funds were to be financed by a payroll tax and diversion of a portion of company profits. The Employers' Confederation (SAF) resisted the idea and refused to even discuss the proposals. The White Collar Confederation (TCO) was divided on the issue. Conflicts surrounding the legislation of the law on co-determination at work and wage negotiations deepened the divisions between the LO, the SAF, and TCO and between the political parties. Change in Swedish industrial relations seems inevitable, and with new elements in power, the general consensus approach may collapse.

Kasperson, Roger E.
Worker participation in protection: the Swedish alternative. Environment, v. 25, May 1983: 13-20, 40-43. LRS83-7122
"Inquires into the structure and major features of the Swedish approach to worker protection, with the specific objectives of examining means for creating a more active role for workers in ensuring their own safety; and drawing conclusions about the relevance (if any) of Swedish successes for alternative approaches that might be adopted in the United States."

Lichty, Mark E.
A prescription for improving the work environment. Employee relations law journal, v. 8, summer 1982: 73-91. LRS82-12804
"It is now more than ten years since the OSH [Occupational Safety and Health] Act was passed, and, according to statistics, progress has been slow in the area of improved occupational safety and health. The author of this article maintains that among the major shortcomings of the Act is the adversarial context in which it is administered. Cooperation rather than litigation would do much more to foster health and safety improvements in the work place and resolve existing problems. The Swedish system offers a model of this type of cooperation, and in the following article, the author shows why it works and what elements of the system could work here."

McMahon, Patrick J.
An international comparison of labor force participation, 1977-84. Monthly labor review, v. 109, May 1986: 3-12.
Labor force responses since 1975 to changes in economic conditions have varied considerably between countries, and the outcomes in the US, Japan, Germany, Canada, Australia, and Sweden can be usefully compared and contrasted. In all countries except the US, the employment population ratio either increased by less than the participation rate or fell between 1975 and 1984.

Myrdal, Hans-Goran.
Collective wage-earner funds in Sweden: a road to socialism and the end of freedom of association. International labour review, v. 120, May-June 1981: 319-334. LRS81-9604
Discusses the proposal put forth by Swedish trade unions that called for compulsory profit sharing and mandated the formation of collective owned funds financed by such profits and administered by employees and their organizations. Analyzes "the likely consequences if a system of the more extreme type were to be fully implemented."

Rehn, Gosta.
Swedish active labor market policy: retrospect and prospect. Industrial relations, v. 24, no. 1, winter 1985: 62-89.
Sweden has worked to reduce unemployment through active rather than passive labor market policies. Active labor market policy (ALMP) seeks to increase and to match labor demand and trained labor supply. Success is difficult to measure scientifically, but Sweden has achieved a low unemployment rate. Inflation is higher than desired but probably lower than it would have been without ALMP. Swedish activities have included: 1. job creation, 2. retraining and relocation of workers, 3. wage equalization and differentiation, and 4. adjustment subsidies.

Standing, Guy.
Unemployment and labour market flexibility: Sweden. Geneva, International Labour Office, 1988. 149 p. LRS88-1581
Examines the links between labor market flexibility and unemployment, describing how the Swedish pattern of unemployment has evolved. Although the Swedish model has been flexible and helped move employment into high-technology export industries, there has also been growing unemployment, wealth inequality, and wage differentials.

VanHouten, Donald R.
The political economy and technical control of work humanization in Sweden during the 1970s and 1980s. Work and occupations, v. 14, Nov. 1987: 483-513. LRS87-12114
"Looks at the nature of the Swedish production system incorporating autonomous work groups, and the historical course the innovation has taken from its emergence in the early 1970s to its reversion in the 1980s."

Wilensky, Harold L.
Nothing fails like success: the evaluation-research industry and labor market policy. Industrial relations, v. 24, no. 1, winter 1985: 1-19.
Active labor market programs (ALMP) use direct government action to: 1. create a demand for labor, 2. increase the supply and quality of labor, and 3. encourage labor mobility. Relevant ALMP issues include: 1. the relative importance of training, 2. funding and administration, 3. worksharing, and 4. elimination of guest and/or aged workers. Evaluation research is often narrow and limited, and frequently produces misleading results. A recent careful and comprehensive evaluation of the Jobs Corps shows that evaluations could be accurate. However, they may still be unhelpful in garnering support for programs. Sweden and Germany prefer action over evaluation. Sweden's program is especially interesting, since its unemployment rate has been less than 4% for 20 years. Although many differences limit the transferability of Swedish programs, the US can expand in this direction. Factors which encourage this view are that: 1. support for ALMP is not limited to the political left, 2. relevant administrative talent is already available, and 3. demographic trends are favorable.

Witt, Matt. Early, Steve.
The worker as safety inspector. Working papers for a new society, v. 7, Sept.-Oct., 1980: 21-29. LRS80-11622
Discuss programs in Sweden and Saskatchewan which give workers significant power to affect health and safety conditions and examine the possibility that similar programs may arise in the U.S.

Zetterberg, Hans. Frankel, Greta.
Working less and enjoying it more in Sweden. Public opinion, v. 4, Aug.-Sept. 1981: 41-45. LRS81-16708
Report results of a project designed to survey Swedish attitudes toward work.

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The impact of working hours and other factors on production and employment. Aldershot, Hants, England; Brookfield, Vt., U.S.A., Avebury, c1987. 166 p.
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Industrial relations, work organisation and new technology: the VOLVO case. Berlin, Wissenschaftszentrum Berlin, [1985] 17, [6] p. (IIMV Arbeitsmarktpolitik, IIM Labour Market Policy 0722-673X, IIM/LMP 85-10)
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Discusses worker participation and labor policy in Sweden.

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Washington, Brookings Institution, 1987. 316 p. LRS87-8484
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